Financial What & When
Investing 101

Download today's slides:
WisMedFinancial.org/Aurora

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9 steps – Financial What and When

1. Getting organized
2. Budget / cash flow
3. Insurance
4. Power of attorney
5. Starter emergency fund
6. Debt elimination (except federal student loans)
7. Emergency fund, 3-6 months of living expenses
8. Federal student loan strategy
9. Account priority savings order

* Save for home or next vehicle
* Life insurance when married and/or dependents
* Estate plan when married and/or dependents

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1. Getting organized

Create a balance sheet listing your assets (what you own) and liabilities (what you owe).
- Apps, spreadsheet, pen and paper all work for this. Keep it simple.

Assets	Liabilities
Bank accounts	Auto loan
Vehicle	Private student loans
Home	Federal student loans
Investment accounts	Mortgage
	Home equity loan/line of credit
	Credit cards

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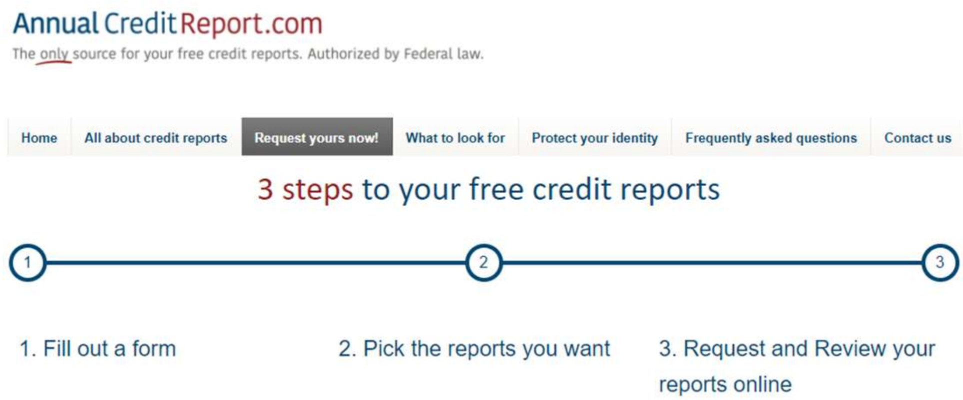
1. Get organized - view your credit report

Check all *open* liability accounts in your name.



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Tip - 7 ways to ruin your credit

Miss/late payments

High utilization rate of available credit

Closing all lines of credit

Falling behind on taxes

Selling your home via short sale

Multiple hard inquiries for credit

Co-signing for someone else with bad credit

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Tip - 7 ways to improve your credit

Miss/late payments	On time payments
High utilization rate of available credit	Low usage of credit
Closing all lines of credit	Keep enough credit open
Falling behind on taxes	Pay taxes on time
Selling your home via short sale	Rent until you have a down payment
Multiple hard inquiries for credit	Only apply when needed
Co-signing for someone else with bad credit	Love them, don't lend to them

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1. Get organized - Social Security access

"Create a personal *my* Social Security account to help you keep track of your records and identify any suspicious activity." *Social Security*. SSA. (n.d.). Retrieved April 7, 2022, from https://www.ssa.gov/fraud/

1. Get organized – prevent ID theft damage

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Freeze or lock your credit reports for permanent protection.

Fraud alerts are only temporary protection.

1. https://www.experian.com/freeze/center.html
2. https://www.equifax.com/personal/credit-report-services/credit-freeze/
3. https://www.transunion.com/credit-freeze
4. https://www.innovis.com/personal/securityFreeze

(Temporarily thaw your credit when securing future loans.)

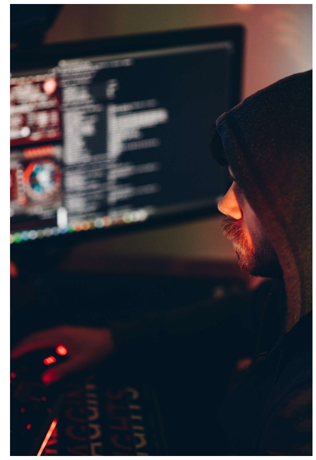

Photo by Anete Lusina from Pexels

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1. Get organized - password manager

Keep track of complex and unique passwords and PINs.

https://www.pcmag.com/picks/the-best-password-managers

https://www.cnet.com/tech/services-and-software/best-password-manager/

Photo by Miguel Á. Padriñán: https://www.pexels.com/photo/close-up-shot-of-keyboard-buttons-2882630/

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2. Budget with 4 Numbers

+ Take Home Pay

- Survival Expenses

- Saving for the future

- Sharing with others

- Splurge

= $0

Photo by Karolina Grabowska from Pexels

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2. Budget – the 4 S's

Monthly Take Home Pay		Update green fields					
$ 14,000.00							
Survival <50%	**Amount**	**Save 15-25%**	**Amount**	**Share 10%**	**Amount**	**Splurge 15-25%**	**Amount**
Rent/mortgage/property tax <= 25%	$ 2,800.00	401(k) or 403(b) $23,000 max	$ 1,916.67	Charity	$ 1,400.00	Vacation	$ 500.00
Natural gas $37	$ 37.00	Backdoor Roth IRA $7,000 max	$ 1,166.67			Entertainment	$ 500.00
Electricity $129	$ 129.00	HSA $4,150 single $8,300 family max	$ 691.67			Misc.	$ 3,000.00
Water $58	$ 58.00	Taxable Investment / Emergency Fund	$ 500.00			Debt snowball	$ -
Internet $varies	$ 100.00						
Cell phone $104	$ 312.00						
Transportation (gas, oil, repair) $260	$ 520.00						
Food $296-$452 per person	$ 800.00						
Childcare	$ -						
Insurance $varies	$ 475.00	Car	$ 500.00				
Minimum debt payments	$ -	Edvest 529	$ 333.33				
Subtotal	**$ 5,231.00**		**$ 5,108.33**		**$ 1,400.00**		**$ 4,000.00**
Actual Percentage	**37%**	**(excludes car and 529)**	**27%**		**10%**		**29%**
Total	$ 13,822.67						
Surplus or Deficit	$ 177.33	<--Adjust categories above until amount is $0					

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3. Insurance

- Health insurance
- Disability insurance
- P&C (home/renters and auto)
  - Consider umbrella policy
- Professional liability (medical malpractice)
  - Injured Patients & Families Compensation Fund (IPFCF)
- Life insurance if supporting spouse or kids

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3. Disability Insurance

- Max limit is usually 2/3 of income
- Own occupation = cannot do your job
  - Get a policy that uses own occupation definition
- Any occupation = cannot do any job
- Employer provided group disability coverage is a taxable benefit, unless you pay taxes on the premiums.
  - Switch tax treatment with payroll.

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3. Life Insurance

- Term life should be most or all of your coverage

- If someone relies on you for income, you need life insurance

- 10 to 15 x's your income (or future income)

- Policy should last until kids raised and/or you are near retirement

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4. Healthcare & Financial Power of Attorney

Springing - becomes effective upon incapacitation

Immediate - effective now
- Durable - stays in force during incapacity.

HIPAA – often included in a power of attorney so the agent has access to medical information

Agent – the person named to act on behalf of the person

Anyone age 18+ should consider signing power of attorney documents.

WI Dept of Health Services has template power of attorney forms
https://www.dhs.wisconsin.gov/forms/advdirectives/index.htm

WISCONSIN DEPARTMENT of HEALTH SERVICES

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4 ½. Documents if married / kids

Financial (durable) power of attorney – someone makes financial decision for you during life

Healthcare power of attorney – someone makes healthcare decisions for you during life

Will – transfers assets with probate. Only document to name a guardian for children.

Trust – transfers assets without probate, may also hold and protect assets for minor or adult beneficiaries

Marital property agreement with Washington Will in WI – transfers assets to trust without probate

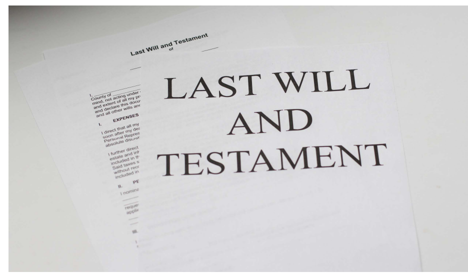

Photo by Melinda Gimpel on Unsplash

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5. Emergency Money

Initially $1,000-$2,000

Then

3-6 months of livings expenses after debts paid (except federal student loans and mortgage)

https://www.pexels.com/photo/writings-in-a-planner-636246/

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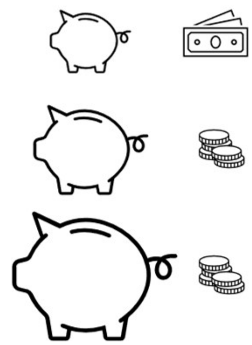
6. Debt Snowball

1. Sort debts from lowest to highest balance (except federal student loans and mortgage.)
2. Pay the minimum on all debt except lowest balance.
3. Pay as much as possible on lowest balance until paid off.
4. Add total payment from lowest balance debt to next lowest balance until paid off.
5. Repeat until all debt eliminated!



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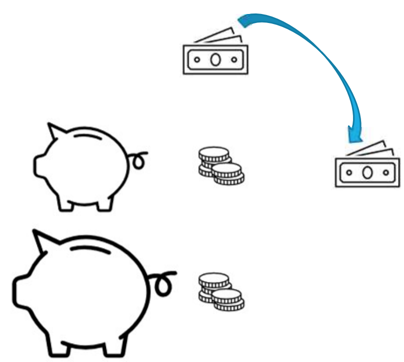

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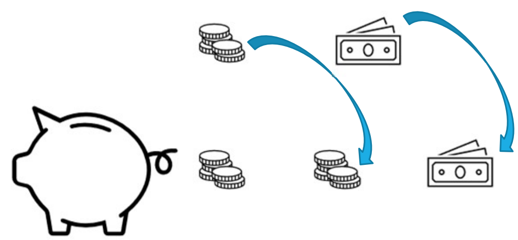

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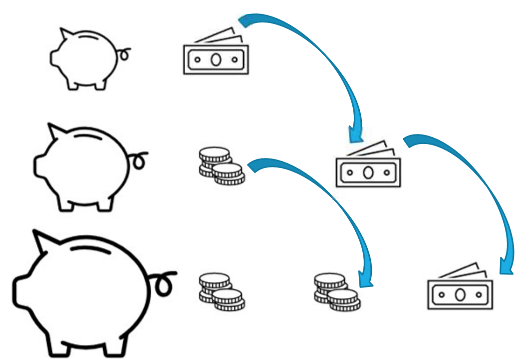
6. Debt Snowball

1. Sort debts from lowest to highest balance (except federal student loans and mortgage.)
2. Pay the minimum on all debt except lowest balance.
3. Pay as much as possible on lowest balance until paid off.
4. Add total payment from lowest balance debt to next lowest balance until paid off.
5. Repeat until all debt eliminated!



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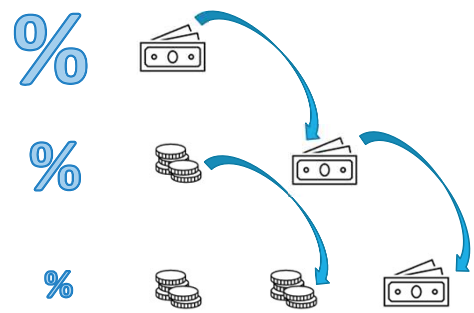
6. Debt Avalanche

1. Similar to debt snowball except debts are sorted from highest to lowest interest rate.
2. Pay the minimum on all debt and as much as possible on the highest interest rate debt.
3. After highest interest rate debt is paid off, pay as much as possible to next highest interest rate debt.
4. Repeat until all debt eliminated!



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6. Snowball or Avalanche?

Both are good choices.

- Snowball is more motivating. You see elimination of entire accounts quickly.

- Avalanche reduces total interest. However, if loans are paid quickly, interest won't accrue so the benefit is negligible.

- If two debts have similar balances, pay off higher interest debt first in snowball method.

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7. Emergency Money

3-6 months of livings expenses after debts paid (except federal student loans and mortgage)

https://www.pexels.com/photo/writings-in-a-planner-636246/

8. Federal Student Loans

See replay of December webinar

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Update: Student Loan Consolidation Date Extended

- Retroactive credit toward forgiveness in 2024 for FFEL and other non-qualifying federal loans which are consolidated before ~~the end of 2023~~ April 30, 2024.
  - See "FAQ – If I consolidate, will that reset my payment count for IDR and PSLF?" Answer: No, payment count won't reset.
- Consolidate loans with different amounts of time in repayment
  - If repayment history overlaps for each loan, the consolidation loan will be credited with the longest amount of time in repayment.

https://studentaid.gov/announcements-events/idr-account-adjustment
https://studentaid.gov/announcements-events/save-plan

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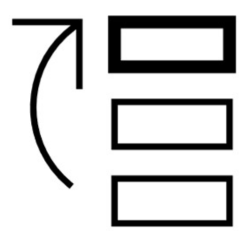
9. Investing Priority Order

1. Employer retirement plan to maximum match
2. Employer retirement plan to contribution maximum.
3. Roth IRA or Backdoor Roth IRA.
4. Health Savings Account (requires high deductible health plan)
5. Taxable investment account
6. College savings for children



2. 3. and 4. can be interchanged depending on personal circumstances

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Employer Plans – AAH 401(k)

Retirement Savings Plan – 401(k)

Benefit	
Annual company contribution	3% of eligible pay • Contribution is made to your 401(k) account even if you aren't contributing. • Must work 1,000 hours or more during the plan year and be employed on last day of the calendar year. • New hires after Jan. 1, 2021, will have a one-year waiting period before becoming eligible and are required to work a minimum of 1,000 hours during the waiting period.
Employer match	• Dollar-for-dollar match of your contributions up to 3% of pay. • Aurora Health Care match is deposited in your 401(k) account each pay period.
Your contributions	• Save up to 75% of eligible pay, subject to IRS limits. • Two ways to save: » Traditional 401(k) – Pre-tax contributions, pay taxes when you take a distribution. » Roth 401(k) – After-tax contributions.

Contribute at least 3%. Make a 3% contribution each pay period for match.

Image from 2023 Advocate Aurora 401(k) summary

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AAH 457(b) / deferred comp

Vesting	You are immediately 100% vested in contributions and earnings in your 457(b) Plan account.
Legal structure	The 457(b) Plan is a nonqualified deferred compensation plan. Plan assets are held in a Rabbi Trust with Empower as the trustee. Plan assets are protected but could be paid out to Aurora's creditors in the event of the insolvency or bankruptcy of Aurora. The plan generally does not allow you to take withdrawals during your employment – exception is upon attaining age 70 1/2 – nor does it allow you to take loans from the plan.
When you leave Aurora	When you leave Aurora, you will need to make a distribution election within 120 days after your termination. You may take your benefit over a five-year period or in a single lump sum, or you may transfer your entire balance to another non-governmental 457(b) plan. You will also be able to defer your distribution to a later date up to age 72. You will be responsible for paying any applicable taxes on any distribution you receive. To the extent required by law, appropriate

If you're a young physician, be cautious using the 457(b) / nonqualified deferred comp plan.

Image from 2023 Advocate Aurora 457(b) and Nonqualified deferred compensation summary

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Traditional 401(k) or Roth 401(k)?

2024 Taxable Income

FEDERAL INCOME TAX		
TAX RATE	MFJ	SINGLE
10%	$0 – $23,200	$0 – $11,600
12%	$23,201 – $94,300	$11,601 – $47,150
22%	$94,301 – $201,050	$47,151 – $100,525
24%	$201,051 – $383,900	$100,526 – $191,950
32%	$383,901 – $487,450	$191,951 – $243,725
35%	$487,451 – $731,200	$243,726 – $609,350
37%	Over $731,200	Over $609,350

Roth

Traditional pretax

Typical strategy, may not apply in all cases.

Backdoor Roth IRA

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Member Benefit

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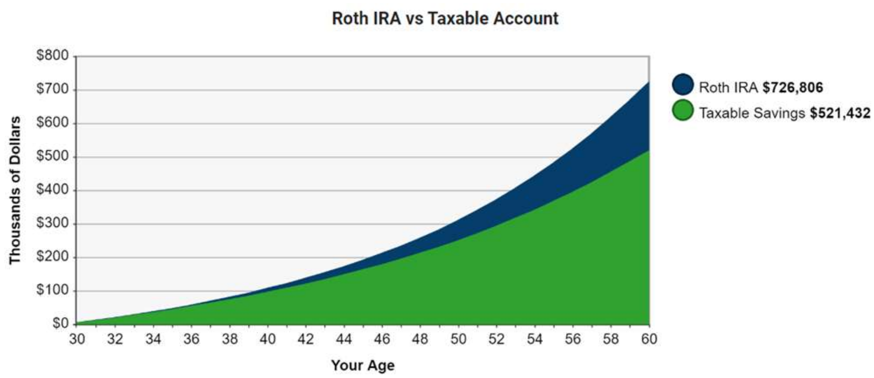
Roth IRA

30-year-old, maximum contribution yearly, 7% return

= $205,374 tax savings per person!



https://www.dinkytown.net/java/roth-ira-calculator.html

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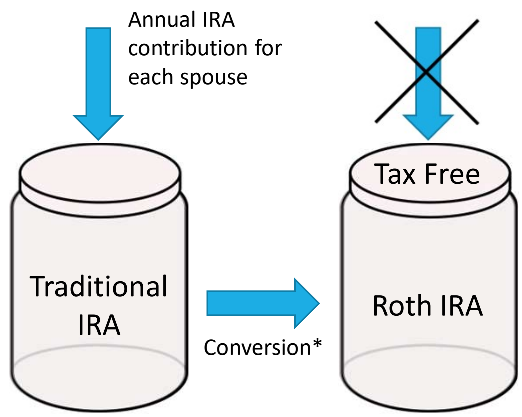
Backdoor Roth IRA

Traditional IRA contributions and conversions to Roth IRA are allowed with any income.



*If you have an existing IRA balance (SIMPLE, SEP, or traditional IRA) an additional step is needed first.

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Tax Reporting – IRA Contribution

Investors have until April 15th to make IRA contribution for prior year.

Therefore, tax form 5498 is mailed in May to prepare prior year tax return.

File tax return before 5498 arrives, just remember to include the IRA contribution.

CORRECTED (if checked)

TRUSTEE'S or ISSUER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code

1 IRA contributions (other than amounts in boxes 2–4, 8–10, 13a, and 14a) $

OMB No. 1545-0747

Form 5498

IRA Contribution Information

2 Rollover contributions $

3 Roth IRA conversion amount $

4 Recharacterized contributions $

Copy B For Participant

TRUSTEE'S or ISSUER'S TIN

PARTICIPANT'S TIN

5 FMV of account $

6 Life insurance cost included in box 1 $

This information is being furnished to the IRS.

PARTICIPANT'S name

7 IRA SEP SIMPLE Roth IRA

8 SEP contributions $

9 SIMPLE contributions $

Street address (including apt. no.)

10 Roth IRA contributions $

11 If checked, required minimum distribution for 2022

12a RMD date

12b RMD amount $

City or town, state or province, country, and ZIP or foreign postal code

13a Postponed/late contrib. $

13b Year

13c Code

14a Repayments $

14b Code

Account number (see instructions)

15a FMV of certain specified assets $

15b Code(s)

Form 5498 (keep for your records) www.irs.gov/Form5498 Department of the Treasury - Internal Revenue Service

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Tax Reporting – Roth Conversion

1099-R arrives in Jan. for prior year's conversions.

Box 2a will show a dollar amount and box 2b checked because the investment company doesn't know your IRA has after-tax dollars.

When tax return form 8606 is calculated, the taxable amount of the conversion will be $0.

VOID CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.

1 Gross distribution $

OMB No. 1545-0119

2a Taxable amount $

Form 1099-R

Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

2b Taxable amount not determined

Total distribution

Copy 1 For State, City, or Local Tax Department

PAYER'S TIN

RECIPIENT'S TIN

3 Capital gain (included in box 2a) $

4 Federal income tax withheld $

RECIPIENT'S name

5 Employee contributions/ Designated Roth contributions or insurance premiums $

6 Net unrealized appreciation in employer's securities $

Street address (including apt. no.)

7 Distribution code(s)

IRA/ SEP/ SIMPLE

8 Other $ %

City or town, state or province, country, and ZIP or foreign postal code

9a Your percentage of total distribution %

9b Total employee contributions $

10 Amount allocable to IRR within 5 years $

11 1st year of desig. Roth contrib.

12 FATCA filing requirement

14 State tax withheld $ $

15 State/Payer's state no.

16 State distribution $ $

Account number (see instructions)

13 Date of payment

17 Local tax withheld $ $

18 Name of locality

19 Local distribution $ $

Form 1099-R www.irs.gov/Form1099R Department of the Treasury - Internal Revenue Service

Saving for College

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Saving for Kids' College

University of Wisconsin-Madison
Madison, WI
Academic Year 2023

Please choose an annual tuition amount
- (selected) $9,273 Annual Tuition (in-state)
- $37,904 Annual Tuition (out-of-state)

Room and Board	$12,894
Textbooks	$1,150
Transportation	$800
Fees	$1,523
Other	$2,354
Total annual cost	$27,994

Northwestern University
Evanston, IL
Academic Year 2023

Please choose an annual tuition amount
- $62,391 Annual Tuition (in-state)
- (selected) $62,391 Annual Tuition (out-of-state)

Room and Board	$0
Textbooks	$1,590
Transportation	$840
Fees	$1,077
Other	$2,052
Total annual cost	$67,950

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529 College Savings Account

- Owner controls the account. Beneficiary is person with education expenses.
- Beneficiary can be changed to any family member.
- WI income tax deduction up to $4,000 per beneficiary (Edvest 529 only).
- Tax deferred growth
- Tax free distributions for qualified expenses
  - 100% of tuition and fees for college, apprenticeships, and up to $10,000 per year for K-12.
  - Books and supplies
  - Computer and internet
  - Room and board

EDVEST 529
Your Partner in Saving for Higher Education

Investing Best Practices

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Principles of Market Equilibrium

I. What's Your Guess?
II. Markets Integrate the Combined Knowledge of All Participants
III. What Affects a Stock's Current Price?
IV. Markets React to Events
V. Stock Prices Adjust Quickly
VI. Picking the Fastest Lane Is a Stressful Guessing Game
VII. Let the Market Work for You

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Together, We Know More Than We Do Alone

Participants were asked to estimate the number of jelly beans in a jar.

Range: 409-5,365

Average: 1,653

Actual: 1,670

Illustration based on voluntary participation at client event hosted by a financial advisor, August 2013. Results audited by advisor.

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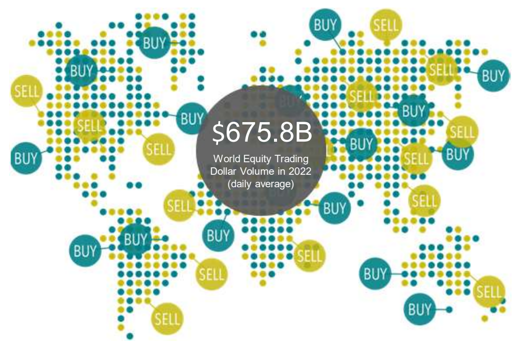
Markets Integrate the Combined Knowledge of All Participants

The market effectively enables competition among many market participants who voluntarily agree to transact.

This trading aggregates a vast amount of dispersed information and drives it into security prices.



In US dollars. Source: Dimensional, using data from Bloomberg LP. Includes primary and secondary exchange trading volume globally for equities. ETFs and funds are excluded. Daily averages were computed by calculating the trading volume of each stock daily as the closing price multiplied by shares traded that day. All such trading volume is summed up and divided by 252 as an approximate number of annual trading days.

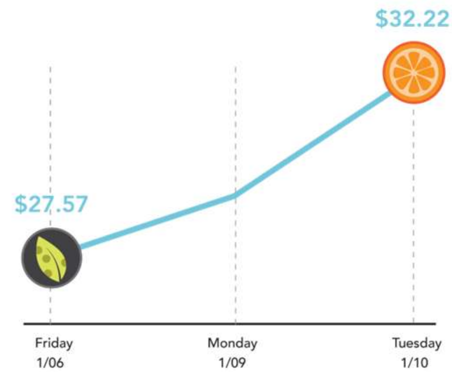
What Affects a Stock's Current Price?

Given all information, a stock's current price reflects aggregate expectations about risk and return.

Markets React to Events

"Orange juice futures surge to record on fungicide fears"
−*Reuters,* January 10, 2012

Prices adjust when unexpected events alter the market's view of the future.



In US dollars.
Source: Dow Jones-UBS Orange Juice Subindex. Dow Jones data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

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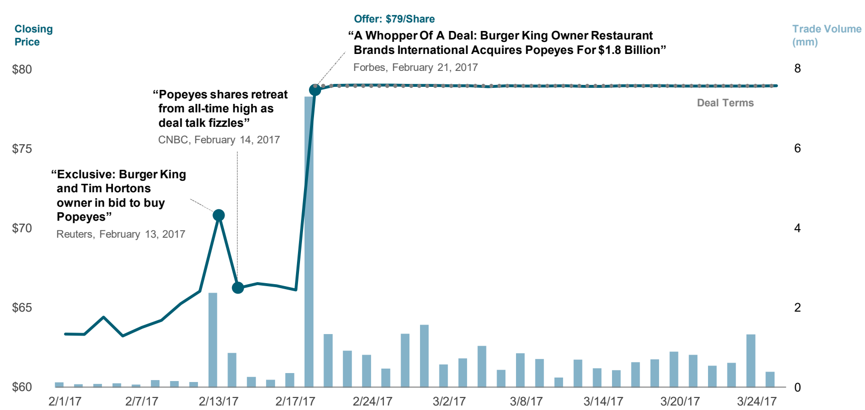
Stock Prices Adjust Quickly

Popeyes Louisiana Kitchen stock price from merger announcement until completion



Past performance is not a guarantee of future results.
This information should not be considered a recommendation to buy or sell a particular security. The securities identified do not represent all securities purchased or sold for client accounts. It should not be assumed that an investment in the securities identified was or would be profitable. Source: data are from Bloomberg L.P. Bloomberg data provided by Bloomberg.

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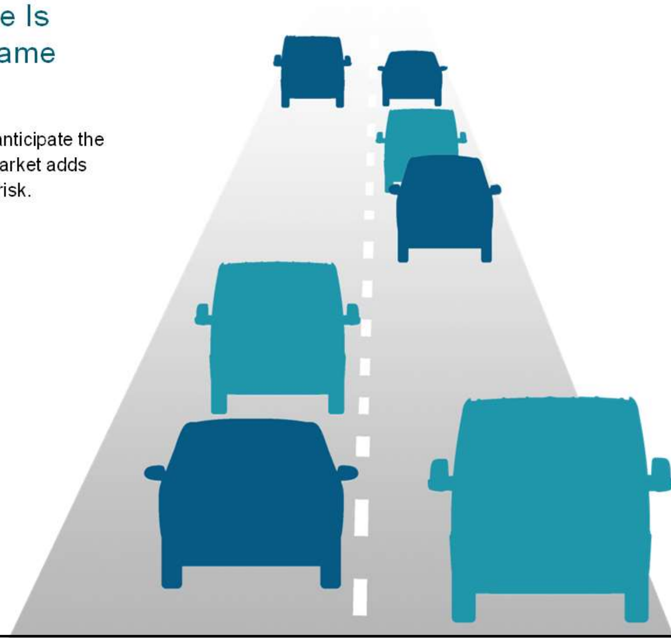
Picking the Fastest Lane Is a Stressful Guessing Game

Likewise, trying to anticipate the movement of the market adds anxiety and undue risk.



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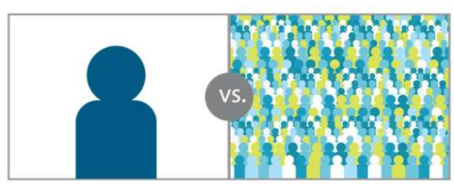
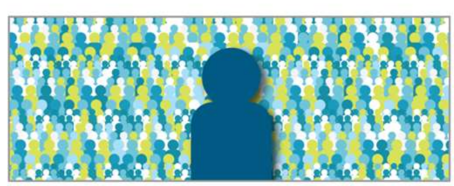
Let the Market Work for You

When you try to outwit the market, you compete with the collective knowledge of all investors.



By harnessing the market's power, you put their knowledge to work in your portfolio.



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Principles of Diversification

I. Diversification Helps You Capture What Global Markets Offer

II. Diversification Reduces Risks That Have No Expected Return

III. Diversification May Prevent You from Missing Opportunity

IV. Diversification Smooths Out Some of the Bumps

V. Diversification Helps Take the Guesswork out of Investing

Diversification does not eliminate the risk of market loss.

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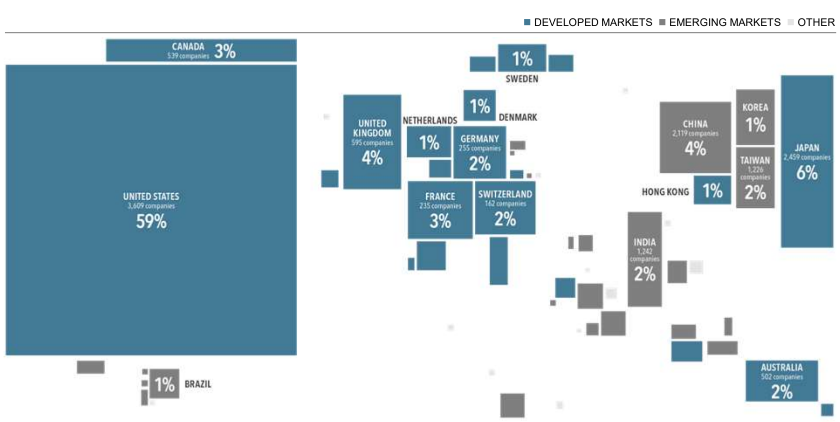
There's a World of Opportunity in Equities

Percent of world market capitalization as of December 31, 2022



Information provided by Dimensional Fund Advisors LP.

Market cap data is free-float adjusted and meets minimum liquidity and listing requirements. Dimensional makes case-by-case determinations about the suitability of investing in each emerging market, making considerations that include local market accessibility, government stability, and property rights before making investments. China A-shares that are available for foreign investors through the Hong Kong Stock Connect program are included in China. 30% foreign ownership limit and 25% inclusion factor are applied to China A-shares. Many nations not displayed. Totals may not equal 100% due to rounding. For educational purposes; should not be used as investment advice. Data provided by Bloomberg. **Diversification neither assures a profit nor guarantees against loss in a declining market.**

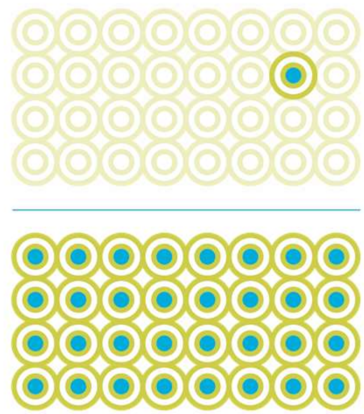
79

27329

Diversification Reduces Risks That Have No Expected Return

Concentrating in one stock exposes you to unnecessary risks.

Diversification reduces the impact of any one company's performance on your wealth.



Diversification does not eliminate the risk of market loss.

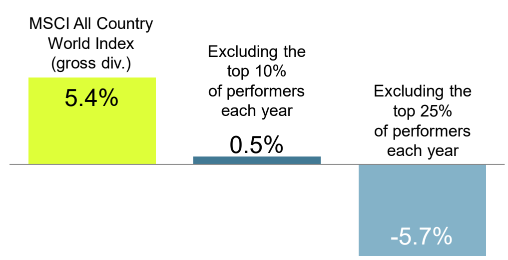
80

27424

Benefits of Diversification

Compound average annual returns: 2008–2022

Research shows there is no reliable way to predict top performers. Broad diversification helps reduce unnecessary idiosyncratic risk.[1]



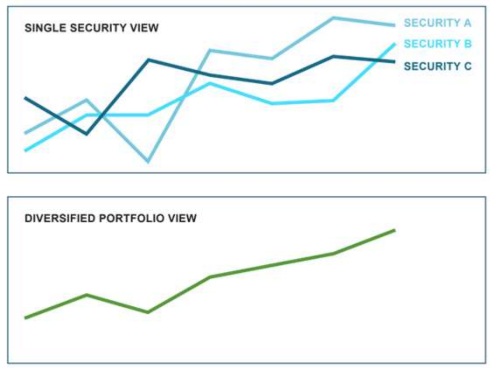
1. Idiosyncratic risk is unsystematic (diversifiable) risk associated with exposure to a single stock, sector, or country.
"Excluding the top 10%" and "Excluding the top 25%" exclude the respective percentages of stocks in the MSCI All Country World Index (gross div.) with the highest annual returns by security count each year. Individual security data are obtained from Bloomberg. Diversification does not eliminate the risk of market loss. Past performance is no guarantee of future results.

81

27295

Diversification Smooths Out Some of the Bumps

A well-diversified portfolio can provide the opportunity for a more stable outcome than a single security.



Illustrative examples. Diversification does not eliminate the risk of market loss.

27425

Diversification Helps Take the Guesswork Out of Investing

Annual returns (%): 2008–2022

You never know which markets will outperform from year to year.

By holding a globally diversified portfolio, investors are positioned to capture returns wherever they occur.

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Higher Return	8.8	79.0	28.1	9.4	18.6	38.8	32.0	5.4	21.3	37.8	2.1	31.5	20.0	45.9	-1.0
	6.6	48.8	26.9	3.4	18.6	32.4	13.7	4.5	12.0	31.7	1.9	25.5	18.7	28.7	-4.5
	4.7	28.5	22.4	2.3	17.1	27.6	4.9	1.4	11.6	21.8	1.5	24.3	18.4	14.8	-5.5
	-33.8	27.2	19.2	2.1	16.3	1.2	1.9	1.0	6.7	14.6	-4.2	23.1	11.2	13.9	-18.1
	-37.0	26.5	15.1	0.6	16.0	0.6	1.2	0.9	5.8	3.8	-4.4	18.9	4.4	-0.1	-18.8
	-39.2	2.3	3.7	-4.2	2.1	0.3	0.2	0.2	1.5	1.1	-11.0	4.2	3.2	-0.8	-19.7
	-46.7	0.8	2.0	-13.3	0.9	-0.1	-1.8	-4.4	1.0	0.7	-14.2	3.9	1.8	-1.2	-20.4
Lower Return	-53.2	0.2	0.8	-18.2	0.2	-2.3	-5.8	-14.6	0.8	0.6	-18.6	2.9	-11.2	-2.2	-26.0

- S&P 500 Index
- Russell 2000 Index
- Dow Jones US Select REIT Index
- Dimensional International Small Cap index
- MSCI Emerging Markets Index (gross div.)
- ICE BofA One-Year US Treasury Note Index
- Bloomberg US Treasury Bond Index 1-5 Years
- FTSE World Government Bond Index 1-5 Years (hedged to USD)

27294

Principles of Returns

I. Financial Capital Plays a Vital Role in Wealth Creation
II. Stocks and Bonds Are Conduits for Capital
III. The Capital Markets Have Rewarded Long-Term Investors
IV. Dimensions Point to Differences in Expected Returns
V. Portfolios Can Be Structured to Pursue Dimensions

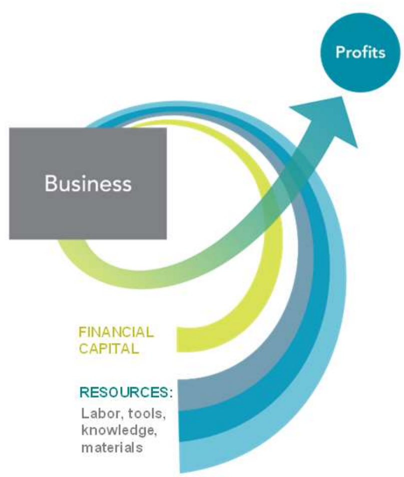
84

27390

Financial Capital Plays a Vital Role in Wealth Creation

Using financial capital and other resources, a business produces goods or services that can be sold for a profit.

As providers of financial capital, investors expect a return on their money.



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Stocks and Bonds Are Conduits for Capital

Bondholders are lenders to a company.
Stockholders are equity owners in the business.
Both expect an adequate return for the terms
and risk of their investment.

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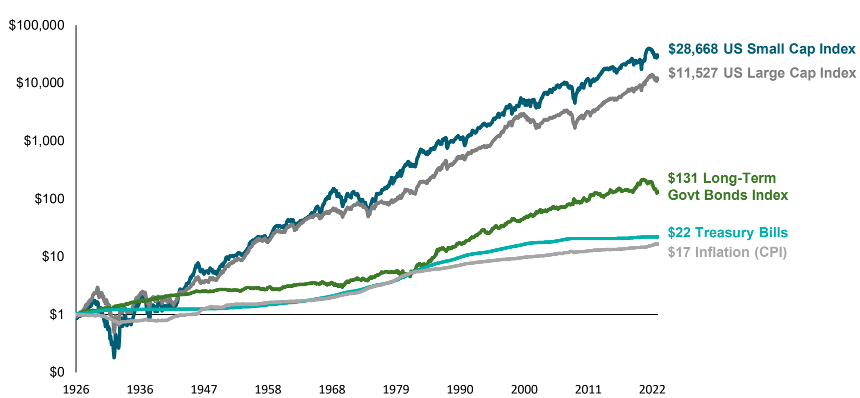
The Capital Markets Have Rewarded Long-Term Investors

Monthly growth of wealth ($1), 1926–2022



In US dollars.
US Small Cap is the CRSP 6–10 Index. US Large Cap is the S&P 500 Index. US Long-Term Government Bonds is the IA SBBI US LT Gov't TR USD. US Treasury Bills is the IA SBBI US 30 Day TBill TR USD. US Inflation is measured as changes in the US Consumer Price Index. CRSP data is provided by the Center for Research in Security Prices, University of Chicago. S&P data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. US Long-term government bonds and Treasury bills data provided by Ibbotson Associates via Morningstar Direct. US Consumer Price Index data is provided by the US Department of Labor Bureau of Labor Statistics.
Past performance is no guarantee of future results. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

87

27323

Dimensions Point to Differences in Expected Returns

Academic research has identified these dimensions, which are well documented in markets around the world and across different time periods.

EQUITIES

Market
Equity premium—stocks vs. bonds

Company Size
Size premium—small vs. large companies

Relative Price[1]
Value premium—value vs. growth companies

Profitability[2]
Profitability premium—high vs. low profitability companies

FIXED INCOME

Term
Term premium—longer vs. shorter maturity bonds

Credit
Credit premium—lower vs. higher credit quality bonds

1. Relative price as measured by the price-to-book ratio; value stocks are those with lower price-to-book ratios.
2. Profitability is a measure of current profitability, based on information from individual companies' income statements.

27423

Portfolios Can Be Structured to Pursue Dimensions

Investors can pursue higher expected returns through a low-cost, well-diversified portfolio that targets these dimensions.

1. Beta: A quantitative measure of the co-movement of a given stock, mutual fund, or portfolio with the overall market.
2. Price-to-Book Ratio: A company's capitalization divided by its book value. It compares the market's valuation of a company to the value of that company as indicated on its financial statements.
3.Profitability: A measure of a company's current profits. We define this as operating income before depreciation and amortization minus interest expense, scaled by book equity.

27443

Principles of Investor Discipline

I. Humans Are Not Wired for Disciplined Investing
II. Many Investors Follow Their Emotions
III. Reacting Can Hurt Performance
IV. Markets Have Rewarded Discipline
V. Focus on What You Can Control

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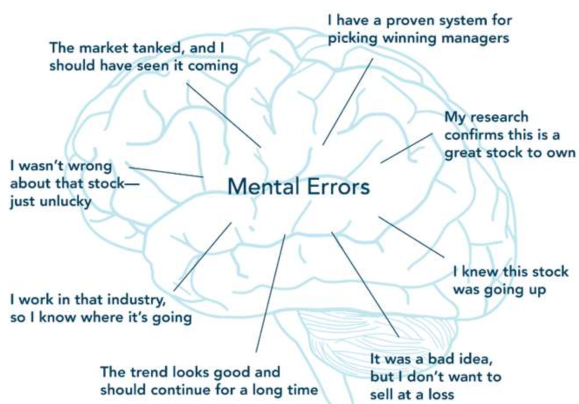
27391

Humans Are Not Wired for Disciplined Investing

When people follow their natural instincts, they tend to apply faulty reasoning to investing.



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Many Investors Follow Their Emotions

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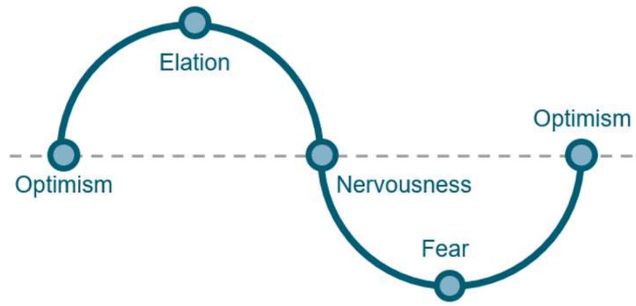

People may struggle to separate their emotions from their investment decisions.

Following a reactive cycle of excessive optimism and fear may lead to poor decisions at the worst times.

Many Investors Follow Their Emotions

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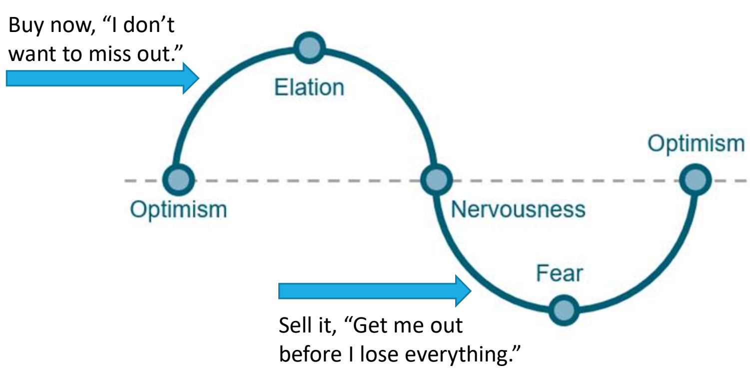
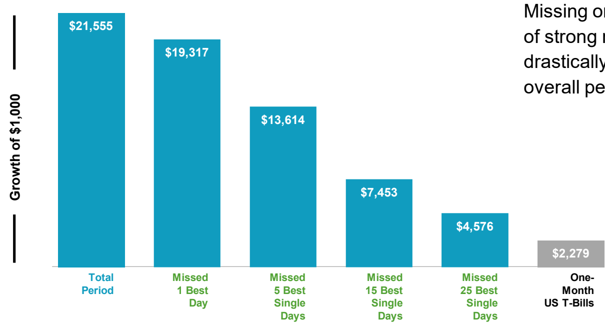


Trading on feelings means buying high and selling low.

Reacting Can Hurt Performance

Performance of the S&P 500 Index, 1990–2022



Missing only a few days of strong returns can drastically impact overall performance.

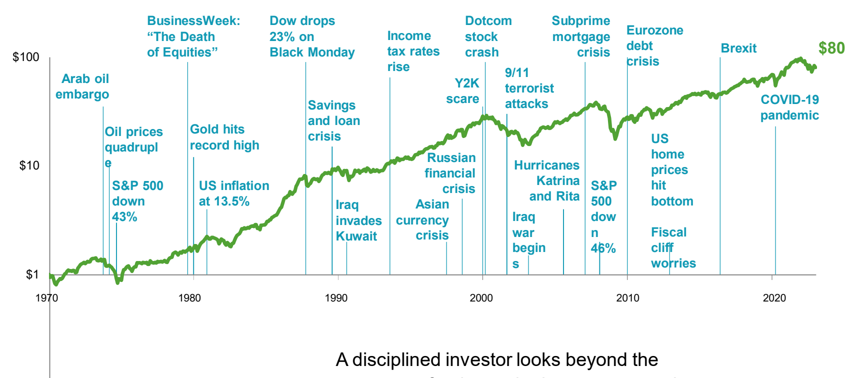
	Total Period	Missed 1 Best Day	Missed 5 Best Single Days	Missed 15 Best Single Days	Missed 25 Best Single Days	One-Month US T-Bills
Annualized Compound Return	9.75%	9.39%	8.23%	6.28%	4.72%	2.53%

Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.
In US dollars. For illustrative purposes. The missed best day(s) examples assume that the hypothetical portfolio fully divested its holdings at the end of the day before the missed best day(s), held cash for the missed best day(s), and reinvested the entire portfolio in the S&P 500 at the end of the missed best day(s). Annualized returns for the missed best day(s) were calculated by substituting actual returns for the missed best day(s) with zero.
 "One-Month US T- Bills" is the IA SBBI US 30 Day TBill TR USD, provided by Ibbotson Associates via Morningstar Direct. Data is calculated off rounded daily index values.

27316

Markets Have Rewarded Discipline

Growth of a dollar—MSCI World Index (net dividends), 1970–2022



A disciplined investor looks beyond the concerns of today to the long-term growth potential of markets.

In US dollars. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is no guarantee of future results.

27310

Distribution of US Market Returns

CRSP 1–10 Index returns by year
1926–2022

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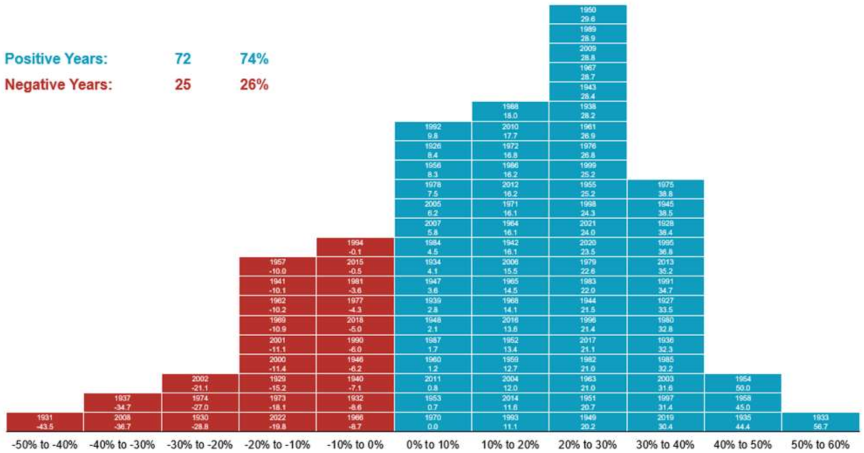
Positive Years: 72 74%
Negative Years: 25 26%



In US dollars. CRSP data provided by the Center for Research in Security Prices, University of Chicago. The CRSP 1–10 Index measures the performance of the total US stock market, which it defines as the aggregate capitalization of all securities listed on the NYSE, AMEX, and NASDAQ exchanges. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

Focus on What You Can Control

- Create an investment plan to fit your needs and risk tolerance.
- Structure a portfolio along the dimensions of expected returns.
- Diversify globally.
- Manage expenses, turnover, and taxes.
- Stay disciplined through market dips and swings.

A financial advisor can offer expertise and guidance to help you focus on actions that add value. This can lead to a better investment experience.

Investing involves risks including possible loss of principal. International investing involves special risks such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks. Diversification does not eliminate the risk of market loss. This is for informational purposes only and is not to be construed as investment or tax advice. Talk to your financial advisor prior to making an investment decision.

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Investing Examples

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Created by the Wisconsin Medical Society

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Stock Funds vs. Bond Funds

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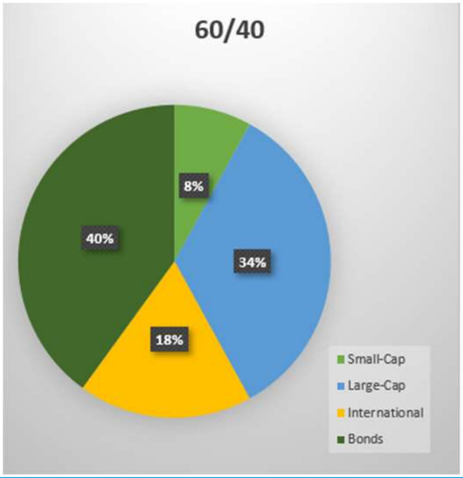
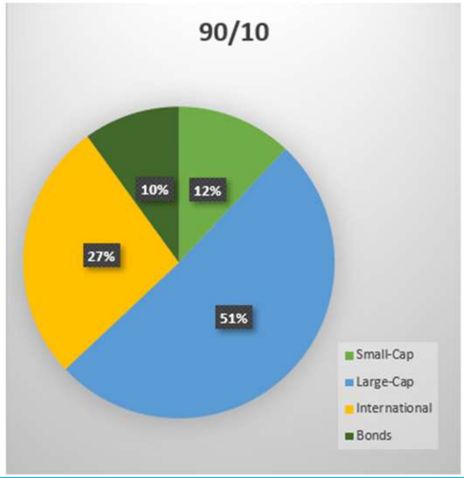
Asset Allocation





Sample only, not a recommendation. Please consult your advisor.

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Asset Selection

Active Funds:

- Fund manager(s) try to beat market
- Buy and sell stocks inside fund based on their research and forecasting
- Higher expenses than passive funds

Passive Funds:

- Try to match the market, not beat it
- Mimic a market index like S&P 500
- Lower expenses than active funds

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Mutual Funds & Exchange Traded Funds

1 share of a fund buys a pool of investments

SPDR® S&P 500 ETF Trust SPY

Holdings	% Portfolio Weight	First Bought
Apple Inc	6.34	Mar 31, 2002
Microsoft Corp	5.43	May 02, 2017
Amazon.com Inc	4.39	May 02, 2017
Facebook Inc A	2.23	Dec 23, 2013
Alphabet Inc A	1.77	Mar 31, 2006
Alphabet Inc Class C	1.74	Apr 03, 2014
Berkshire Hathaway Inc Class B	1.54	Feb 28, 2010
Johnson & Johnson	1.33	Mar 31, 2002
Visa Inc Class A	1.22	Dec 31, 2009
JPMorgan Chase & Co	1.21	Mar 31, 2002

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Asset Selection

Target date funds:

- Ideal way to start saving
- All assets with same tax status
- Years away from spending
- One fund with diversified portfolio inside

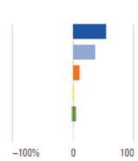
Vanguard Target Retirement 2050 Fund VFIFX ★★★★ Morningstar Medalist Rating

Portfolio | Medalist Rating as of Mar 1, 2023 | See Vanguard Investment Hub >

Quote Chart Fund Analysis Performance Sustainability Risk Price Portfolio People Parent

Portfolio Equity Bond

Asset Allocation



Asset Class	Net	Short	Long	Cat.	Index
U.S. Equity	53.23	0.00	53.23	53.47	55.05
Non-U.S. Equity	35.23	0.00	35.23	28.75	36.21
Fixed Income	9.48	0.01	9.49	6.84	8.64
Other	0.05	0.00	0.06	9.73	0.10
Cash	2.00	1.97	3.96	2.30	0.00
Not Classified	0.01	0.00	0.01	0.03	0.00

Investment as of Dec 31, 2023 | Category: Target-Date 2050 as of Dec 31, 2023 | Index: Morningstar Lifetime Mod 2050 TR USD as of Dec 31, 2023 | Source: Holdings-based calculations.

Stock Style Map Weight Historical

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Asset Selection

Individual funds:

- Multiple funds working together to create portfolio
- Spend investment soon
- Mix of accounts: tax deferred, taxable, tax free
- Varying cash flow (i.e. timing of Social Security)
- Socially responsible
- Tax sensitivity
- Income generation

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Bonus Topics

Principles of Market Returns and Election Years

It is difficult to identify systematic return patterns in elections years.

On average, market returns have been positive both in election years and the subsequent year.

Market expectations associated with election outcomes are embedded in security prices.

Sources: S&P data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved; MSCI data © MSCI 2023, all rights reserved; Bloomberg data provided by Bloomberg.
Past performance is not a guarantee of future results.

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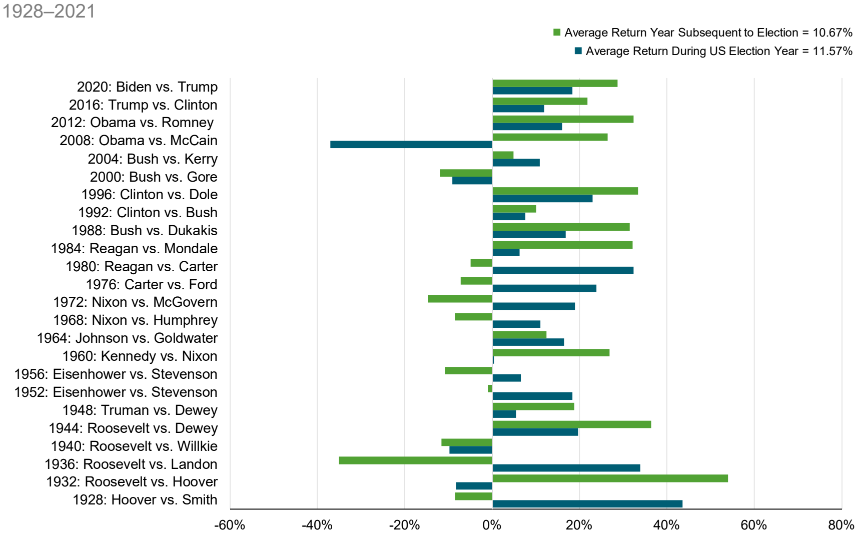
Returns During and After US Election Years

S&P 500 Index: 1928–2021



Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. Actual returns may be lower. Source: S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

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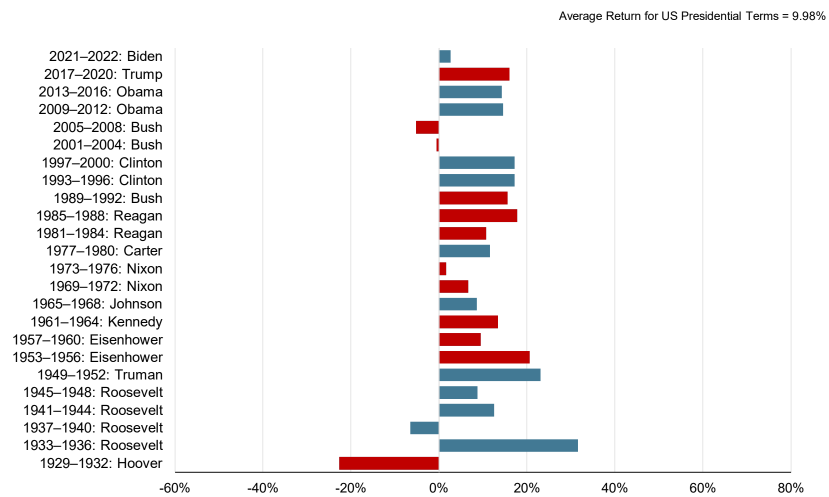
Annualized Returns During US Presidential Terms

S&P 500 Index: 1929–2022



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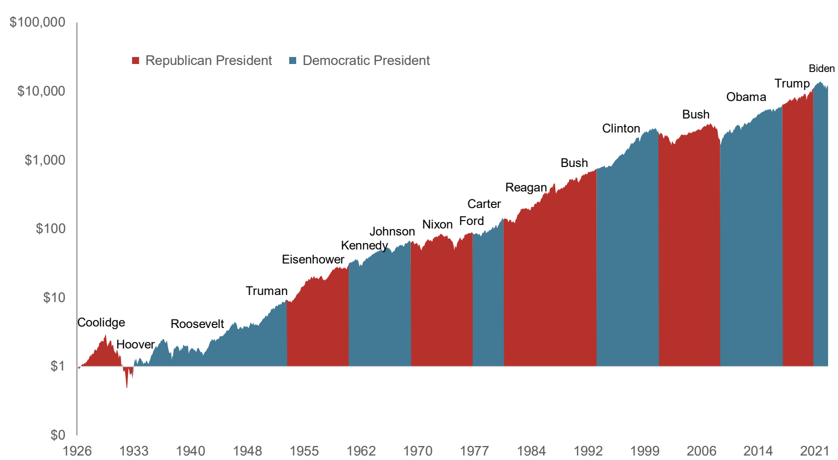
Markets Have Rewarded Long-Term Investors Under a Variety of US Presidents

Growth of a dollar invested in the S&P 500: January 1926–December 2022

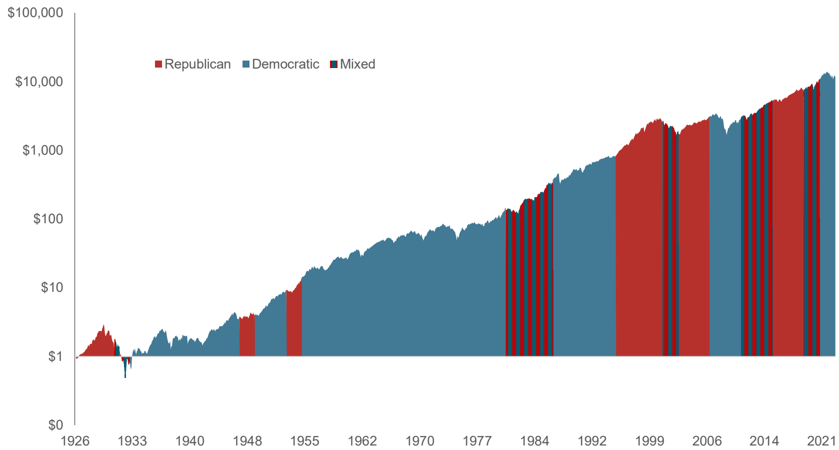


Past performance is not a guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. Source: S&P data

27311

Hypothetical Growth of $1 Invested in the S&P 500 Index and Party Control of Congress

January 1926–December 2022



Past performance is not a guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. Source: S&P data

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Selling I Bonds

Issue Date	Fixed Rate	Nov-23	May-23	Nov-22	May-22	Nov-21
11/23 - 04/24	1.30%	5.27%				
05/23 - 10/23	0.90%	4.86%	4.30%			
11/22 - 04/23	0.40%	4.35%	3.79%	6.89%		
05/22 - 10/22	0.00%	3.94%	3.38%	6.48%	9.62%	
11/21 - 04/22	0.00%	3.94%	3.38%	6.48%	9.62%	7.12%

https://www.treasurydirect.gov/files/savings-bonds/i-bond-rate-chart.pdf

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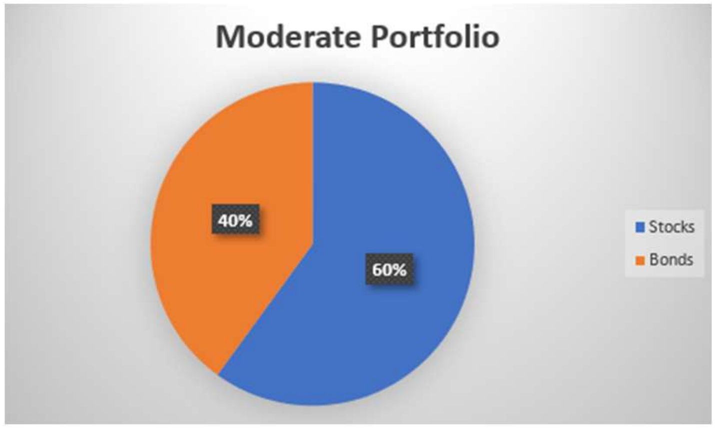
Improving Returns - Rebalancing



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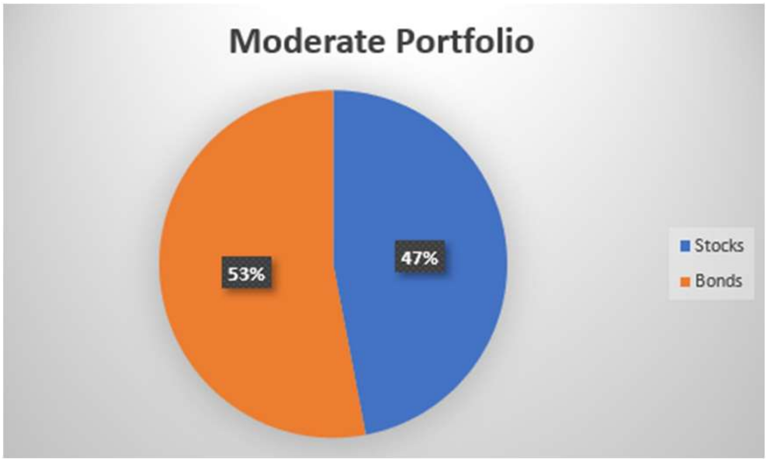
As of March 31, 2020



Outside of 20% relative bandwidth.
60% stocks +/- 12% =
48% to 72%

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Just for Fun – GameStop Short Squeeze

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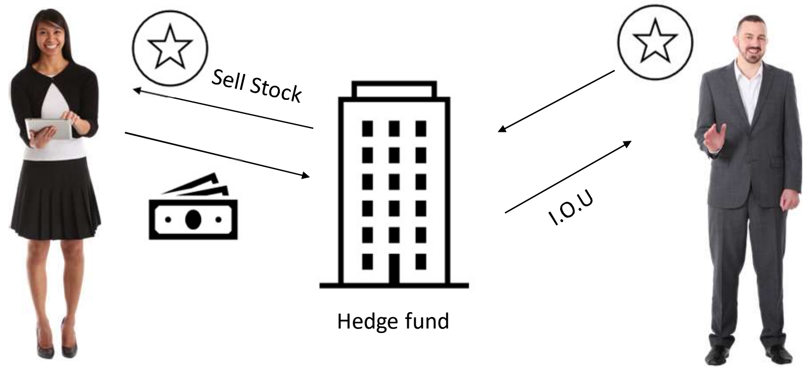
Just for Fun – GameStop Short Squeeze

Shorting stock:

- Not recommended!
- Borrow shares of stock
- Sell shares for cash
- Buy shares back later
- Return shares to lender



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Just for Fun – GameStop Short Squeeze

Shorting stock:

- Not recommended!
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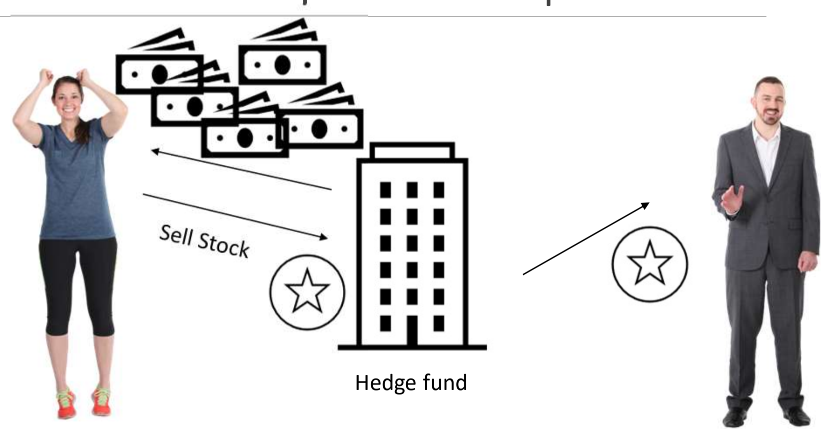

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Cryptocurrency

- Missing qualities of an investment
  - Does not earn interest
  - Does not pay dividends
  - Does not earn profits for shareholders
  - Does not produce a product or service
  - Returns / losses are based on someone else willing to pay more or less than you did

Photo by Behnam Norouzi on Unsplash

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Q&A

Slides at WisMedFinancial.org/Aurora

Wisconsin Medical Society

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