Investing in the Future

- **Many years ago, an American company had the slogan, "The Future is NOW."**
- **Still another company crowed, "The future is here!"**
- **Neither is true—the future is the future, while NOW is the present!**
- **But there was a germ of truth in those slogans. In fact, the future—more specifically, YOUR future—is closer than you think!**
- **Because the future is racing toward us—always—we need to prepare for it.**

The Sad Truth

- **[There are] 38 million working-age households who do not have <u>any</u> retirement assets.**
- **People age 65 and older in the workforce grew to <u>16.1 percent by 2010</u>, up from 12.1 percent in 1990.**
- **"A substantial fraction of persons die with virtually no financial assets—46.1 percent with less than $10,000—and many… rely almost entirely on Social Security…"**
- **75% of Americans nearing retirement age had less than $30,000 in their retirement accounts, which *Forbes* called "the greatest… crisis in American history."[7]**

The Sad Truth (2)

- A sizable group of the population has not even thought about retirement, so there are a lot of people that are approaching retirement without any preparation…
- Americans age 55 to 64 have a median net worth of $180,000—less than they'll likely need for health care spending alone during retirement.
- Fifty-seven percent of U.S. workers surveyed reported less than $25,000 in total household savings and investments.
- Of all the people in the US between 55 and 64, one third haven't saved anything for retirement!!

Retirement? But I'm only 20! (or 22, or 25, or 30)

- The future is closer than you think.
- Further, the sooner you start to invest, the more you will have at retirement.
- I can hear the objection now: "But I don't have any money! I'm in debt, I have to borrow to go to school, every penny is precious!"
- For some people all the above is true. But many in this room could invest a small amount on a monthly basis.
- And if you absolutely can't, you can start reading much of the free material that is out there and start planning for when you can invest!

Preparing for the Future

- I wish that someone had told me at age 25 how important it is to start investing early-on.
- I started saving heavily **at age 45**. I now have a comfortable financial cushion. However, if I had started twenty years earlier, I would be a millionaire several times over!
- NOW is the time to make your move. As mentioned on the previous slide, almost everyone in this room could save just a little, starting right now. If not, you can start making plans to save **as soon as you graduate**.

Time is Your Friend

- At Your Age (30 or Less), time is a great friend.
- Compounding return is what makes time your pal.
- Investment firms that keep expenses low boost your return. Why pay part of your profit to a manager who probably won't beat an index fund in making profits?
- Don't be afraid to use your own ability. Study the stock market and other investments.
- Ken Fisher's investment advice in *Forbes* has made me lots of money. And it is FREE to *Forbes* subscribers.
- Remember, the sooner you start, the sooner you will start making a profit!

Examples

Investment examples for retirement at age 65 assuming a 4% real rate of return:

Age	**25**	**30**	**35**
Investment	**$500**	**$500**	**$500**
Amount	**$591,000**	**$456,900**	**$257,100**
Monthly payout	**$1970**	**$1523**	**$857**

IRA's

- **"IRA" is usually referred to as an "Individual Retirement Account," but it is also called an "Individual Retirement Arrangement" in IRS articles.**
- **Anyone can set up an IRA with an authorized investment provider, and those listed below all fit that definition.**
- **An IRA allows an individual to save for retirement with "pre-tax dollars," that is, the contribution to the IRA is NOT taxable. The money is taxed as it is withdrawn.**
- **IRA's have restrictions on withdrawals, Withdrawals prior to age 59 incur an extra tax (10%).**

Roth IRA's

- Roth IRA's, named for senator William Roth, Jr., were established as part of the Taxpayer Relief Act of 1997.
- Contributions to a Roth IRA are taxable (that is, contributions to a Roth IRA are not deductible from income, as the "normal" IRA).
- However, withdrawals are normally tax free.
- Since income might be much lower in retirement, this is a highly desirable retirement account.
- I would recommend it in most cases.
- Note that both IRA's and Roth IRA's have limits on how much you can contribute a year, tax-free.

Investment Companies

- Today, it is almost absurdly easy to create an IRA or investment account and start to prepare for retirement.
- Due to the power of modern PC's and the internet, anyone can easily set up an account and manage it from home in a short time each day.
- In years past, only the very rich had investment funds and managers or advisors. Today, we can not only set up and manage accounts on line, but also get professional help with accounts.
- Further, trades and investments are easy to do via PC.

Vanguard Group

- **Founded in 1975. Manages ~$2.0 TRILLION in investments. Around 12,000 employees.**
- **A well-known and well-regarded company.**
- **Long admired as a low-cost company (to clients).**
- **Well-known for low-cost index funds.**
- **Will start a small fund with a $50/month draft, but must put in $1000 minimum.**
- **Has a "target retirement fund." You can pick a retirement date and $$$ goal, and there are tools to help you set up the monthly savings amount.**

Fidelity Investments

- Another large investment companies.
- About $1.7 TRILLION assets in management.
- 41,000 employees.
- Serves twenty million (!) investors.
- Very good customer service—investment advisors will meet with you by appointment.
- Minimum $2500 lump sum investment to start an account.
- However, you can start an account for a $50/month investment with bank account draft authorization.

Charles Schwab

- Founded in 1971
- ~$1.5 TRILLION under management, 12,000 employees.
- Accounts mainly self-managed.
- Can get investment planning help, retirement planning assistance is also available.
- $1000 minimum; trades are $8.95.
- Minimum waived if you start an account with $100 automatic withdrawal.
- $0 service charge on an account.

Goal: $1 Million at Retirement

- Example Vanguard retirement plan.
- Age: 35. 30-year horizon. Moderate tolerance for market volatility.
- Portfolio value at 35: $50,000.
- Contribute $5,000 in the first year.
- Raise contribution by $500 per year, to maximum of $10,000 annually.
- 70% allocated to diversified stock funds; 30% allocated to diversified bond funds, allocations to foreign investments as appropriate.
- Periodically evaluate current portfolio value relative to savings target, return expectations, and long-term objective.
- Adjust as needed.

Company Investment Plans

- **Many companies have retirement plans.**
- **These used to be "defined benefit" plans. That is, you work X years and retire, and you get a defined amount of money for life, based on your years of service and maximum salary (usually the average of the highest three to five years).**
- **These plans got too expensive for many companies, and in fact caused bankruptcies of some of them.**
- **Today, most companies that have retirement plans (and many don't) have <u>defined contribution plans</u>.**

Defined Contribution Plans

- **These retirement plans don't guarantee ANY level of retirement income. What they do define is that the company will contribute so much per year to the plan.**
- **There are often rules on these plans (e.g., the $$$ go into company stock only).**
- **Or the plan puts the $$$ into an investment fund, but often the employee cannot control the investments.**
- **Some companies will have these kinds of plans and a 401(K) plan as well.**
- **Some companies have only a 401(K) plan.**

401(K) Plans

- **"401(K)" refers to a section of the US tax code enacted in the 1970's, which allow company retirement accounts that are created with tax-deductible $$$.**
- **Some companies provide only the vehicle for contributing employee $$$ to the fund. Other companies match employee contributions up to some set level (such as 4% of gross salary).**
- **If you go to work for a company that provides some level of matching, you MUST MUST MUST contribute to the fund, at least to the maximum matching level. That "matching" contribution is free money!!!**

In Summary:

- Start investing SOON. NOW would be good.
- Don’t stick your $$$ in a bank. 1% is a crummy return on your hard-earned money.
- Pick a reputable investment firm and save a regular amount every month. Or contribute to your company’s 401(K), especially if there are matching $$$!
- Learn about investing, pick reputable stocks, and control your own account if you can. Many 401(K)’s allow this!
- Spend some time every day understanding the current economic environment and future forecasts.

In Summary (2):

- **Stay away from "get rich quick" schemes and investments. I don't like REIT's or hedge funds.**
- **Also, stay away from commodities, day trading, and other investment schemes.**
- **In general, to make a good return on your money, pick solid stocks, diversify investments, and read and study enough to understand what is going on in the markets.**
- **If you are prudent and pay attention to your investment fund , you can have a nice "nest egg" when you retire.**

- **Remember: The future isn't now, and it isn't here.**
- **But it's CLOSE!**

Assignment

- Pick a reputable investment company, investigate, and map out an investment plan.
- There are lots of investment guides and planning tools on-line (including at the companies mentioned).
- Outline your plan in a 1-2 page report (be brief but concise about your plans and retirement goals).
- The report is due in 2 weeks. Keep a copy for yourself, as it will not be returned right away.
- Make a late “new year’s resolution” that you will start investing as soon as you can. Plan to be a millionaire!