PROVIZR

INVESTING 101

FOR UNIVERSITY EMPLOYEES

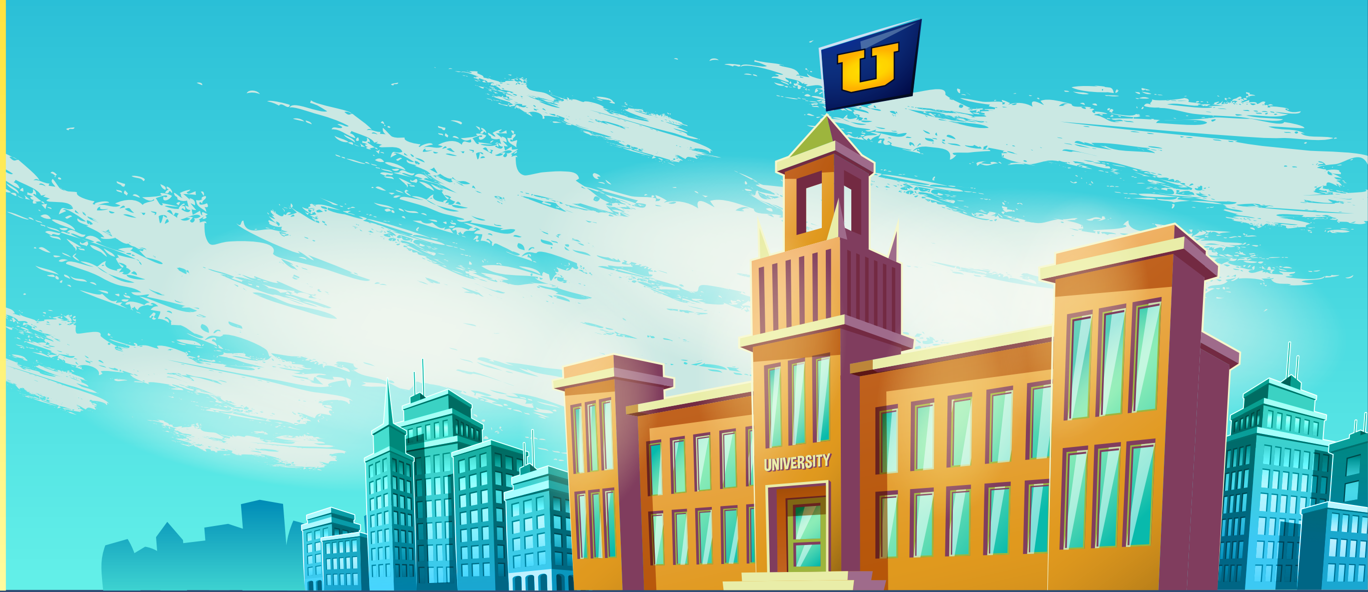
GO YOU.

You work for the University and everyone says you have this awesome retirement plan. Great! But, there are a lot of options and decisions to consider. Are you confused about which investments to choose or how to set up your portfolio? Not exactly sure what stocks and bonds are? Which platform to use - Fidelity or TIAA? Confused about investing in general?

If you answered yes to any of these questions, you've got the right information in your hands. In this easy-to-understand guide, we are going to ease your confusion about investing and provide you with the basics so you can make better decisions regarding your university retirement accounts.

You're going to need to learn some new lingo and a few concepts, but once you do, you'll have a solid foundation.

Grab a cup of coffee, sit back, relax, and let's get started…



INVESTING IS THE ACT OF COMMITTING MONEY TO AN ENDEAVOR WITH THE EXPECTATION OF OBTAINING ADDITIONAL INCOME OR MAKING A PROFIT.

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INVESTING

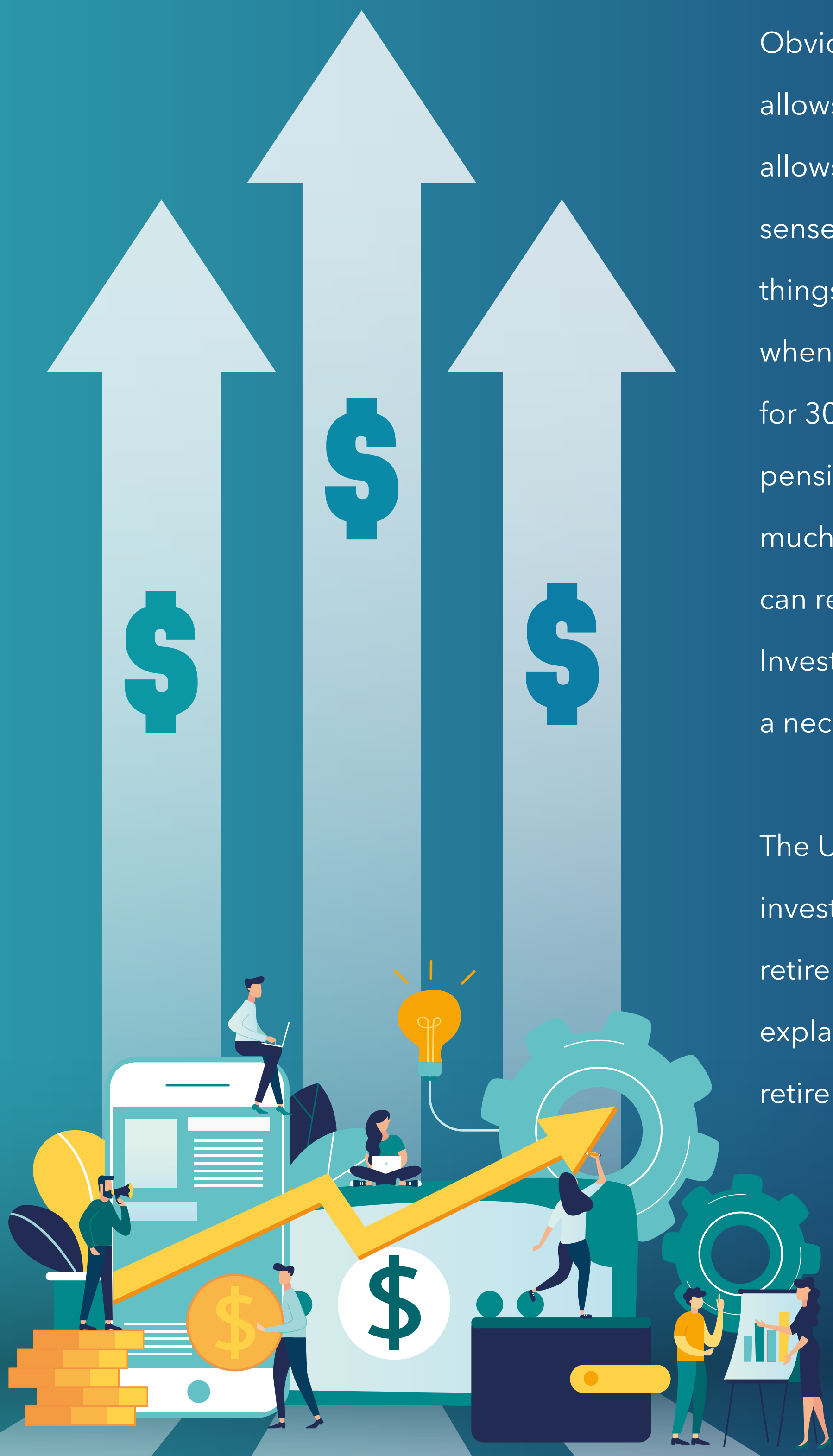
So... What is investing?

It's actually pretty simple: investing means putting your money to work for you. Growing up, most of us were taught that you can earn an income by getting a job and working. And that's exactly what most of us do. There's one big problem with this: if you want more money, you have to work more hours or get a higher paying job. However, there is a limit to how many hours per day we can work and obtaining a higher paying job is not always quick or easy. But what if, instead of you working more hours, you could send your money out to work for you? What if your money got a job and sent its paychecks directly to you? Pretty neat, huh? Well, that my friend, is the goal of investing.

What Investing Is Not

Investing is not gambling. Gambling is putting money at risk by betting on an uncertain, random outcome with the hope that you might win money. Some people confuse investing and gambling because they may receive a “hot stock tip” from their co-worker. This is not investing. True investing doesn't happen without some effort on your part. A "real" investor does not simply throw his or her money at any random investment; he or she performs thorough analysis and commits money by taking a calculated risk only when there is a reasonable expectation of profit. Yes, risks still exist, and there are no guarantees, but investing is more than simply hoping that luck is on your side.

WHY INVEST?



Obviously, we all want more money. Investing allows us to have more money which, in turn, allows us to increase our personal freedom, sense of security and our ability to afford the things we want in life. Long gone are the days when everyone worked at the same company for 30 years and then retired on a nice pension. For most of us, investing is not so much a luxury as it is one of the only ways we can retire and maintain our present lifestyle. Investing has become, for many, a necessity.

The University has provided a robust investment platform to help you meet your retirement goals. In the next section, we will explain the various parts of your University retirement plan.

How your University Retirement Plan works

The University plan allows you to contribute a portion of your paycheck to your retirement plan. The University will then add in some of their money. This is typically called a matching contribution. Although simple in concept, your plan at the University can be confusing. Why? Because most employees typically have 3 (and sometimes 4) retirement accounts at the University. We are sure you have seen or heard of these account types: 403b, 401a, 403b SRA, and 457. Let us explain:

Fun Fact!: The number/letter combination of the accounts (403b, 401a, etc.) actually refer to the IRS code which establishes these accounts!! Cool huh?? Okay, maybe not so much.

403b	**This is where your contributions (the first 5%) are deposited.**
401a	**This is where the University's contributions are added for you.**
403b SRA	**This is the account into which any additional contributions beyond 5% you make are deposited (up to a maximum of $20,500 for 2022).**
457	**This is another account available to you which accepts any additional contributions you may make once you've reached the maximum in the 403b SRA account.**

Quick note, to determine your max contribution, be sure to subtract the amount that goes into the 403b Base Plan. (SRA stand for Supplemental Retirement Account)

To make things even more confusing, the University utilizes two separate investment providers – TIAA and Fidelity. You have the option of using one or both of these providers for your investments. You can also have a 403b, 401a, 403b SRA, and 457 accounts with BOTH Fidelity and TIAA! Making for up to 8 accounts total!!

(it's no wonder why people call Provizr! Lol)

A CLOSER LOOK AT FIDELITY & TIAA

FIDELITY & TIAA

Fidelity and TIAA are the two companies the University uses to provide an investment platform for you. (TIAA and Fidelity each have their own unique strengths which we detailed in our other guide "Fidelity or TIAA"

If you're interested in a deep dive on Fidelity and TIAA, Download this guide.

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These platforms consist of a variety of investments from which you can choose to build your retirement portfolio. But how do you know what to choose? What exactly are some of these investments? It can be confusing… but we are here to help.I

INVESTMENT TYPES

There are many types of investments available, but we are going to concentrate first on the three main building blocks... Stocks, Bonds, and Alternatives.

STOCKS

Stocks, often called Equities, are ownership in a company. If you own Coca Cola stock, you are, in fact, a part owner of the Coca Cola Corporation. As an owner, you are entitled to a vote at shareholder meetings and to a share of the profits of the corporation. These profits are paid out to the owners as dividends. So, a dividend is simply a profit payment given to you as an owner.

Owning stocks, especially over long periods of time, can be very financially rewarding. Stocks of such companies as Apple and Amazon have made many of their shareholders very wealthy. Even small investments, over time, can be very lucrative. Of course, even companies of this size can experience downturns and the risk of them going bankrupt is always present. (Note: If a company goes bankrupt, it is common for their stock investors to lose all of their investment.)

Typically, we look to invest in stocks to accomplish a few things:

01 We wish to receive an income through dividend payments. In this case, you would invest in those companies that have a strong dividend payment history along with the company's outlook on the stability of its future dividends.

02 We wish not for dividend payments, but for capital appreciation. In other words, we are not as concerned about a profit payment as we are about the company growing more profitable and that being reflected in the price of the stock increasing.

03 Some wish for a combination of #1 and #2 above. They would like some dividend payment as well as the stock price to rise.

You've probably heard that stocks are volatile? Well, we are here to tell you that you heard right! Stock prices can swing drastically up or down. Stocks trade on various exchanges. Many people find this process confusing and do not understand how it works. Let's clear this up…

You've also probably heard of the New York Stock Exchange and/or the Nasdaq exchange. You've probably seen video of the traders at these exchanges yelling and screaming at each other along with all the high-tech computers they use. It all sounds very complex and complicated. Well, we are here to tell you that it all boils down to just being a good old-fashioned auction. People that want to buy stocks and people that want to sell their stocks congregate at the exchange and each stock has its own little auction. When you look up the price of a stock on the internet, what you see is the agreed upon price between a buyer and seller for a certain number of shares of the stock. Not everyone agrees on the price – some people want more for their stock and some people are willing to accept less, some people are willing to pay more and some want to pay less - and this one of the main reasons that cause prices to move up and down throughout the day. Stocks are traded on these exchanges Monday through Friday from 9:30am to 4:00pm EST.

BONDS

Bonds, often called Fixed Income, are investments based on debt. When you purchase a bond, you are actually lending your money to a company or government. In return, they agree to pay you interest on your money for a specific amount of time and, at the end of that time period, pay you back the original amount you lent them. A bond is essentially an IOU… you lend someone some money and they promise to repay you with interest. Typically, the longer you are willing to lend a company or government money the more interest they will pay you.

People buy bonds for two main reasons. First, they want to earn a rate of interest on their money. Second, they want to preserve their principal. The amount of interest a company or government will pay you depends on their credit rating. Just like we have our personal credit scores, companies and governments have credit scores as well. The better their credit score, the lower the interest rate they have to pay to borrow money. If you want a totally safe and secure investment (like a United States Treasury Bond, which is considered the safest investment in the world) you will need to be willing to accept lower rates of interest being paid to you.

On the flip side, if you want to lend money to a distressed company with a low credit score, you will earn higher rates of interest. The risk here is what happens when things go from bad to worse with a distressed company. Although bonds are typically a safer investment than stocks (ownership in a company), you can see how there is still risk.

BONDS cont.

Many people think that all bonds are totally safe. Nothing could be further from the truth. Yes, U.S. Government bonds are safe, but many other governments and many companies with low credit ratings can default on their bonds. A default means that they stop making payments on the bonds. This is a very common occurrence when a company goes into bankruptcy. But unlike stock holders who typically lose their entire investment, bond holders can recoup some of their investment. Bond holders are usually near the top of the list to recoup some of what they are owed. It all just depends on how much money is available to pay off the bonds.

Here is an example:

You buy a $1000 5-year bond from a company. They are going to pay you 5% interest every year for 5 years. At the end of the 5 years, they will repay your $1000.

In the U.S., the economy's interest rates are determined by the Federal Reserve. They set base interest rates in hopes of growing the economy successfully.

Let's assume that in the second year of owning your bond, the Federal Reserve decides to raise the base interest rate. What this will do is cause most other interest rates (like those of mortgages, new car and personal loans, business loans, etc.) to rise as well. This means that the company that you lent the $1000 to last year now has to pay 6% to issue a new 5-year bond.

So, if the new bonds are paying 6%, what does that do to your 5% bond? Because you still have 4 more years to go until your bond matures, the value (or price) of your bond will decline. Your bond just isn't as attractive to buyers as the new bonds from the company.

If you can hold on for the remainder of the 4 years that are left, then you will get your $1000 back. If, however, you need to sell the bond before it matures in 4 years, then you may not get the entire $1000 back.

ALTERNATIVES
there's more?

Yes! Isn't this fun?

Alongside stocks and bonds, there are other investments that can be classified as Alternatives. An alternative is an investment that simply isn't a stock or a bond. Examples would include gold and other precious metals, oil, wheat, corn (and other types of commodities), real estate, hedge funds, private equity, venture capital among other types of investments.

As many of these alternative investments can be complicated, you don't need to know a lot about them right now. What you should know is that these types of investments tend to be non-correlated to both stocks and bonds, meaning that they don't necessarily move in the same direction at the same times. They kind of do their own thing. And because we like to have diversity in our investments, these types of investments can come in handy when building our portfolio. (More on this later!)

MUTUAL FUNDS

MUTUTAL FUNDS

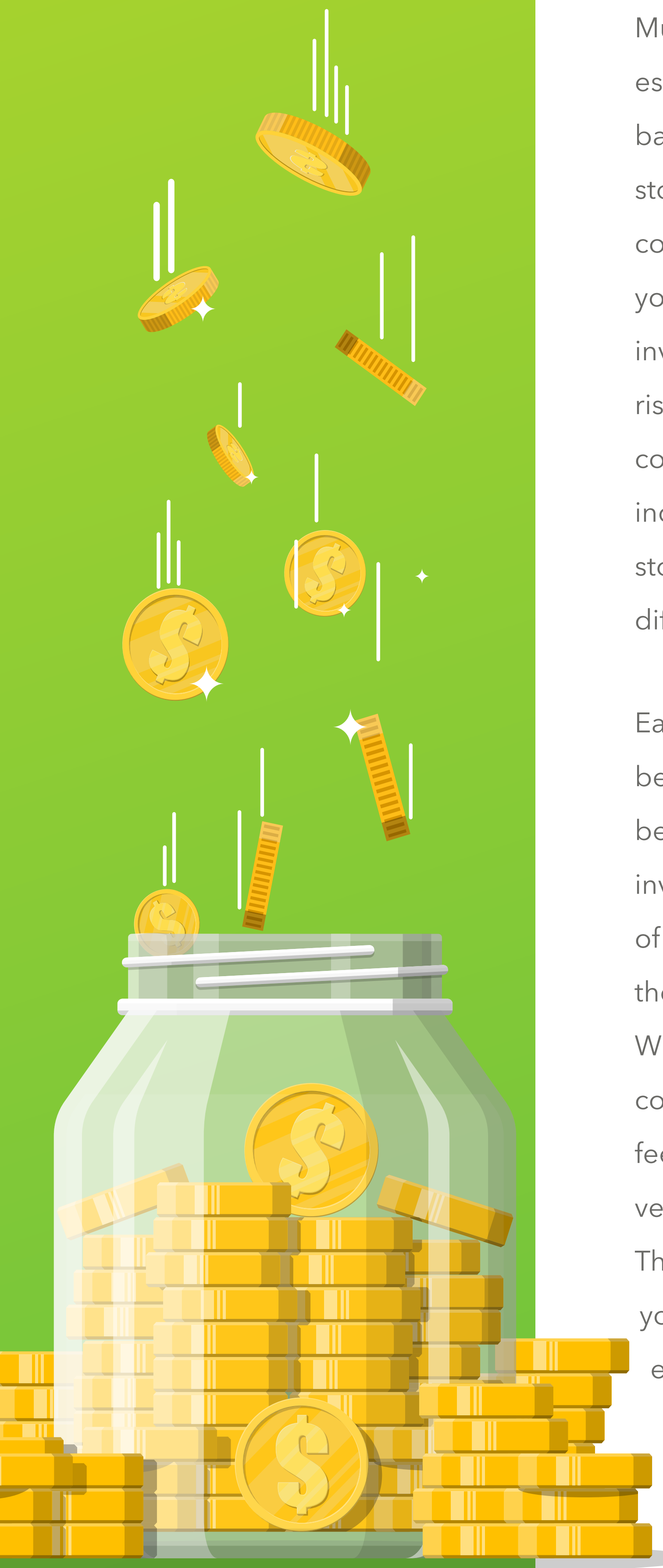
We just learned about the 3 basic building blocks of investments: Stocks (Equities), Bonds (Fixed Income), and Alternatives (not a stock or a bond but still an investment!)

And now we come to Mutual Funds. But aren't mutual funds another building block? Aren't they the only things we have to invest in at TIAA and Fidelity?

Mutual Funds are a simply a basket of any one or a combination of the 3 building blocks above. Some mutual funds buy shares of stock in many different companies. Some mutual funds only buy bonds. Some only buy alternatives. And some will buy all three!

Mutual funds pool your money along with other investors' money in order to buy the investments. This basket of investments is then managed by a professional manager. Their job is to provide the best return possible, considering their stated goals, for those people invested in the mutual fund. They may do this through buying, selling, or holding the stocks, bonds, and alternatives in their portfolio.

So why buy a mutual fund rather than an individual stock or bond or alternative? Great question!



MUTUAL FUNDS contd.

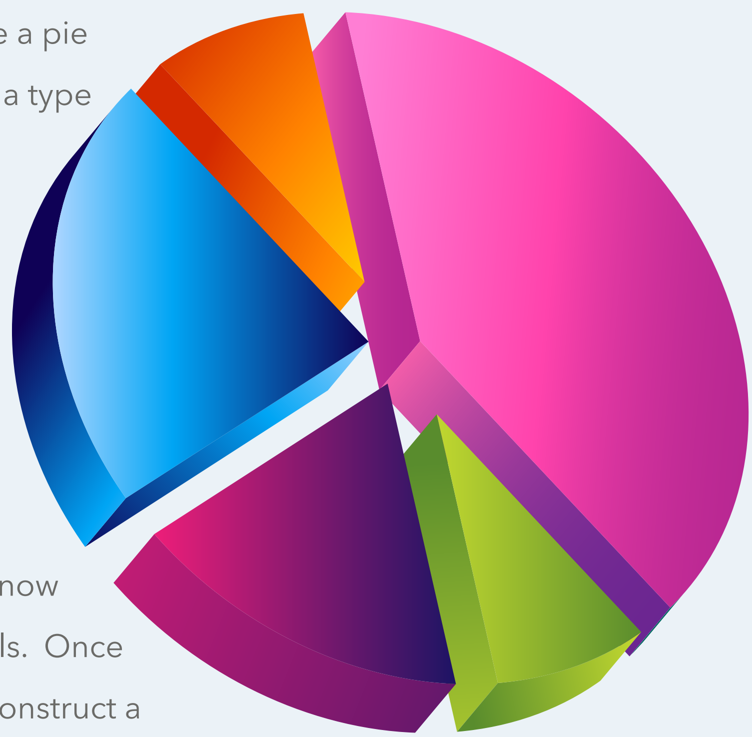
Mutual funds provide us with diversification. This essentially means "don't put all of your eggs in one basket". If you had $5,000 you could potentially buy stock in a small number of companies. But those company's stocks may not perform well. In essence, you are taking on a higher amount of risk by investing in only a few companies. A way to reduce risk is to buy a mutual fund. Mutual funds typically contain many different stocks in many different industries. The fund allows you to be invested in stocks but lessens the risk by spreading it over many different companies.

Each fund has its own strategy for how they will try to be successful. An advantage to mutual funds, beyond diversification, is that you take the investment research process and put it in the hands of professionals. A downside to mutual funds is that they charge you a fee to manage your money. When you buy an individual stock, you may pay a commission to buy it, but there are typically no other fees involved. A mutual fund's fee can range from very low (.01%) to quite significant (2% or more). These rates are charged on the amount of money you have in the mutual fund. They are called expenses and are charged to you every year. Most university retirement plans are quite competitive and have arranged to offer their employees very low fees on the mutual funds inside the plan.

THE PORTFOLIO

As you've probably guessed, a portfolio is a combination of different investments (stocks, bonds, and alternatives) mixed and matched for the purpose of achieving your goals. In the University Plan, you are able to build portfolios using both the TIAA and Fidelity investment options.

An easy way to think of a portfolio is to imagine a pie chart. Each portion of the pie chart represents a type of investment to which you have allocated a certain amount of your money inside the University Plan. In order to determine how much money you should allocate to the various types of investments, you will first need to understand two critical things. First, you will need to know how much risk you are comfortable taking. Second, you will want to know the return you need in order to reach your goals. Once we know these two things, we can attempt to construct a portfolio with the amount of risk you are comfortable taking and the long-term historical returns that you may need to reach your goals.



RISK & REWARD

Investing, at its essence, is just a balancing act between risk and reward. How much risk are you willing to take to receive a certain amount of reward?

Understanding the reward part is easy. Every year, we can measure the reward by looking at the return of that particular investment. Simply, it is the financial return of a particular investment – or how much our money grew in terms of both capital appreciation and dividends.

The risk part is a bit trickier. Technically, we assess risk by measuring an investment's volatility. Volatility refers to the degree an investment will go up and down in a certain time frame. But, in reality, most investors measure risk by how well they sleep at night. If you have put too much money into investments that worry you, then you may be taking on too much risk.

RISK AND REWARD

I'm sure you've heard the saying, "Those that take the risk, reap the rewards."
This statement is true. The more risk you are willing to take, the more potential reward you may receive.

The flip side of that coin is that safer investments typically offer less of a return.

Let's look at a couple of examples…

U.S. Treasury Bonds are considered the safest investments in the world. The United States has never defaulted on paying its debts and there is little likelihood that it will. Most people that invest in U.S. Treasury Bonds sleep very well at night because they know they will receive their interest payments and their principal back when the bond matures. However, because these investments are so safe, the returns tend to be on the low end of the scale.

Less Risk = Less Reward.

> **"THOSE THAT TAKE THE RISK, REAP THE REWARDS."**

Almost everyone in the world knows of the Apple corporation. You probably own or have owned some of their products. Although Apple seems like a sure bet now, it wasn't always that way. As a matter of fact, Apple is still seen as a higher risk investment. But back 25 years ago, Apple was truly high risk as it came close to bankruptcy. For those with conviction… those that invested in Apple back then… they took the risk and it paid off handsomely as Apple provided stellar returns for its investors over the last 25 years. But that risk could have NOT worked out well. Apple COULD have gone bankrupt. And those investors would have lost their entire investment. That's why we say,

More Risk = More Potential Reward.
The reward isn't guaranteed.

RISK TOLERANCE & RETURNS

So, the first step is to take a self-assessment of your tolerance for risk. There are several free online tools to help with this. Here a few:

VANGUARD RETIREMENT PLANS
NEW YORK LIFE RISK CALCULATOR
MONEY RATES INVESTMENT QUIZ

Provizr can provide you with a professional risk assessment free of charge! Call us!!

Once you have an idea of how much risk you can tolerate, the next step is to determine your necessary return. To do this, it is a good idea to have an understanding of when you might want to retire and what monthly income you would desire in retirement. With these two data points, along with your current savings amount and how much you contribute to your retirement monthly, we can reverse engineer the necessary returns that will allow you to reach your goals.

Here is an example:

Sally is age 40. She would like to retire at age 62. She has saved $250,000 in her University Retirement Plan and contributes 5% of her salary (the University contributes 10%). She makes $60,000 per year, so her monthly retirement savings comes to $750 per month. Sally would like to maintain her current salary level in retirement. Her risk assessment shows that she is able to tolerate a "somewhat greater than average" amount of risk.

Knowing these variables, we can then figure out what return is necessary for Sally to reach her goal. Sally needs to achieve a long-term return of about 6-7% for her to achieve her goal (with an ample degree of confidence) of retiring at age 62 on about $60,000 of annual income.

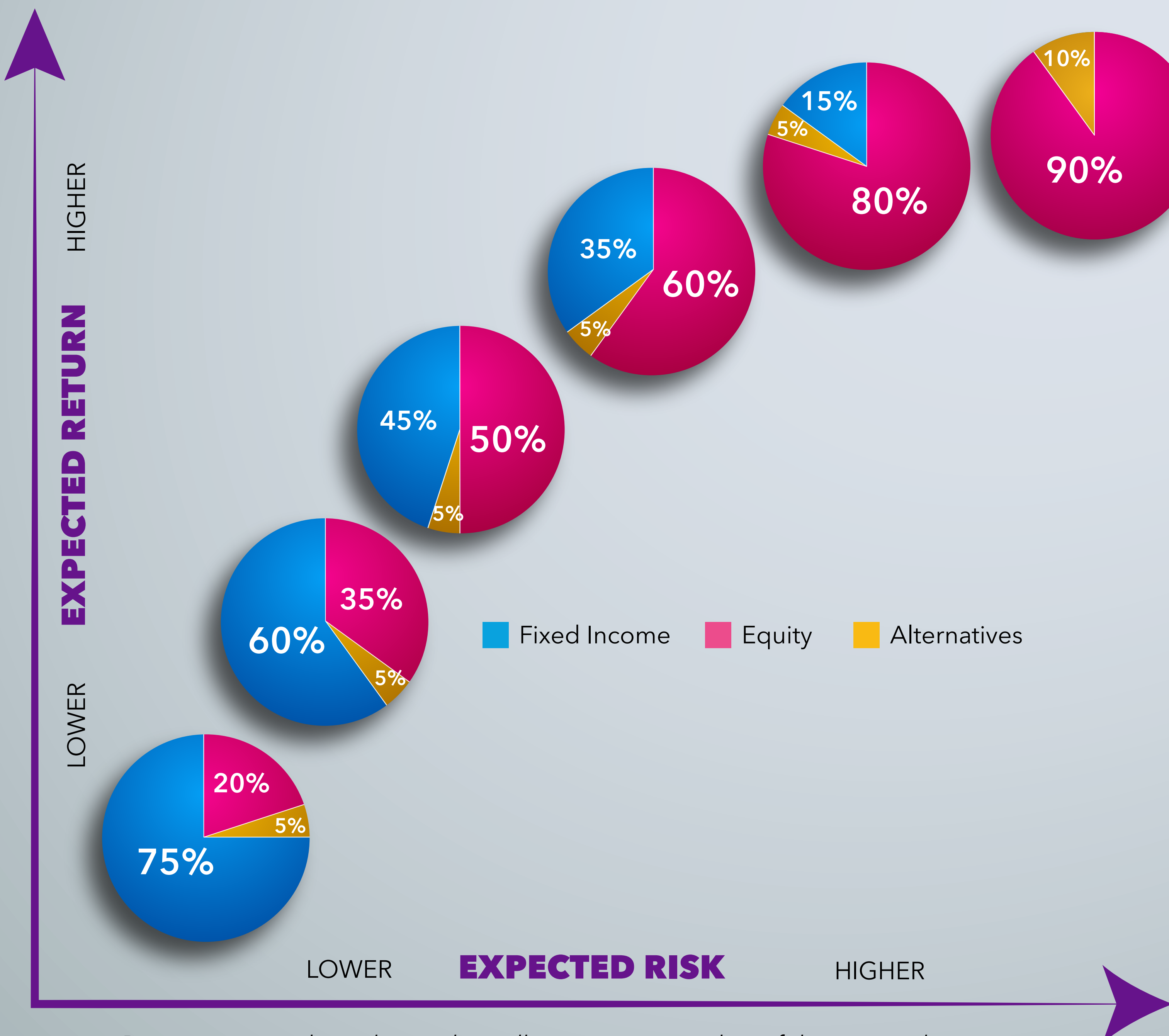
There can be many more variables to consider, but as a rough sketch, we can now determine what type of portfolio is most appropriate for Sally to achieve her goals. Luckily for Sally, her "greater than average appetite for risk" fits nicely with a Moderate Growth Portfolio.

A Moderate Growth Portfolio is a portfolio that consists of about 60% in stocks, 30-35% in bonds, and 5-10% in alternatives. This type of portfolio has historically* provided the type of return Sally needs and its volatility is within her range of comfort. (*Please note that past performance is no guarantee of future results.)

Balancing your investment risk and the returns necessary to reach your goals can sometimes be a frustrating process. It is not uncommon to have a conservative risk tolerance (you like only safe investments) but need a return historically associated with a more aggressive or volatile portfolio. In these situations, some form of compromise must be reached.

PORTFOLIO ALLOCATION

In the above example, we explained that a Moderate Growth Portfolio with an allocation to equities of about 60%, an allocation to bonds at 30-35%, and an allocation to alternatives at 5-10%. But this is not the only type of portfolio. Portfolios can be built with any type of allocation you desire. Here are a few types of sample portfolio allocations and where, in general, they land on a risk/reward scale:



Provizr reserves the right to adjust allocations to actual portfolios at our discretion. The chart above is for educational purposes only.

CHOOSING FUNDS

Once you have determined the correct portfolio allocation for you, the next step is to determine which mutual funds to use to "fill in" the allocation. Let's stick to a Moderate Growth Portfolio as an example:

We will use a **Moderate Growth Portfolio** with a 60% allocation to stocks, a 30% allocation to bonds, and a 10% allocation to alternatives. Many times, and especially with Fidelity and TIAA, you are offered so many funds that it is difficult to choose.

An easy way to achieve diversification is to simply allocate 60% of the funds to a stock index fund, 30% to a bond index fund, and 10% to an alternative fund (if available).

Easy right? Not so fast! What's missing? What did we get wrong? Hmmmm....

We have no allocation to international or foreign stocks!

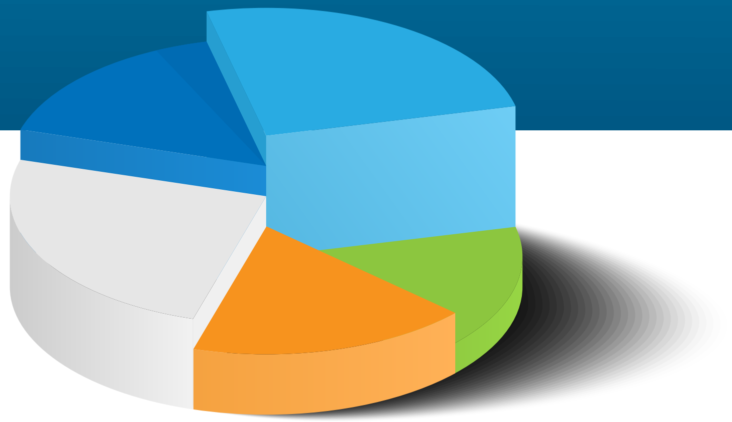
The answers to these questions can be extremely complicated and are outside the scope of this guide. (But give us a call and we can share Provizr's own research with you absolutely free!)

If we chose an S&P 500 Index Fund for the stock allocation, we don't own any smaller companies because that index fund only contains very large companies.

What types of bonds are inside that bond index fund? Corporate bonds? Government bonds? What might be missing?

What do you do if there are several options for various types of funds? TIAA and Fidelity offer many funds… how do you know which one is best for you?

Is choosing the fund with the best track record the best way to choose a fund?



MONITORING & REBALANCING

Once you have decided on the right allocation and have chosen the funds for your portfolio, the final step is to monitor its progress and make changes when necessary.

Some people believe in a Buy and Hold strategy. This strategy simply says buy quality investments at good prices and hold for a long time. For many this works well, especially if you are young. The younger you are, the more time you have before you may need the funds. So you have the time to weather the ups and downs of the markets over the years. History has shown that, over time, the markets have always risen given enough time.

The problem with Buy and Hold strategies is that they may not work so well for those that cannot stomach the downside volatility or if they are nearing retirement. During the Financial Crisis of 2008-2009, the markets declined by approximately 50%.

If a person was considering retiring during this time period, and held a significant portion of their retirement funds in stocks, they may have had to reconsider their plans!

Other people believe in Active Management of their portfolio. This strategy essentially buys and sells investments in the portfolio when the market or economy changes.

The goal is to either profit from the investments or protect from loss. There are many different Active Management styles and it is, in our opinion, typically best to use a professional for this type of strategy.

Not to blow our own horn... But we will anyway! ... Provizr is happy to sit down and show you exactly how we do it. We even wrote a guide about it. Get it here:

Download

REBALANCING

Whether you use a Buy and Hold strategy or an Active Management strategy, it's always a good idea to check in on the allocation at regular intervals (every quarter, every six months, or every year). The reason for this is because, over time, the allocation will shift. If the markets are positive and your stock funds grow more than your bonds or alternatives, the stock allocation will creep up. Instead of stocks representing 60% of your portfolio, they may now represent 70%. If your risk tolerance is still more Moderate Growth in nature, you may want to sell some of the stock investments and buy more of the bond and alternative investments. This process is called Rebalancing and it serves to keep your portfolio in line with your stated risk tolerance and objectives.

CONCLUSION

Although not exhaustive by any means, we have given you, what we believe, is a solid understanding of the basics of investing. We have covered what investing is and why we invest. We've explained how the University plan works. We also explained what stocks, bonds, and alternatives are along with mutual funds and how they work. And finally, we discussed portfolios, risk and reward, choosing funds and monitoring and rebalancing. These things combined are the basics of investing. Obviously, there are a lot of nuances to each of the subjects, but hopefully you now have a better understanding of these things that may have been confusing to you in the past.

We wish you the best of luck in your retirement endeavors!

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Credit risk is the risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Credit risk arises whenever a borrower is expecting to use future cash flows to pay a current debt. Investors are compensated for assuming credit risk by way of interest payments from the borrower or issuer of a debt obligation. Credit risk is closely tied to the potential return of an investment, the most notable being that the yields on bonds correlate strongly to their perceived credit risk. High-yield/junk bonds are not investment-grade securities, involve substantial risks, and generally should be part of the diversified portfolio of sophisticated investors.

International and emerging markets investing involves special risks, such as currency fluctuation and political instability, and may not be suitable for all investors. Investing in stock or stock mutual funds includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not insure against market risk. Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies. All investing entails risk including loss of principal.

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