

## MONEY 101 EDUCATION

### 12.93 Investment Segment – Assignment #3

PAGE #1 & #2 are a review

The assignment starts on page #3

#### REVIEW

In class #3, we used Morningstar to research FUNDS.

We learned to look up key metrics to see what was “inside a fund.”



- Is it a stock fund or a bond fund? Or a combination
- What was the expense ratio? (cost to run the fund)
- What was the five or 10-year return on the fund
- For stock funds
  - Is the fund comprised of US (domestic) or international stocks?
  - What size (capitalization) are companies in the fund? Micro, Small, Medium, Large, Mega?
  - Are the companies value or growth-oriented, or a blend?
- For bond funds
  - What was the average duration of years for the bonds to mature?
  - Who has issued the bond? The federal government, municipalities (state, county, cities), or corporations
  - What was the creditworthiness of the issuing entity: AAA, AA, A BBB, etc.
  - What is the average “coupon” = interest rate

We also learned that to minimize risk, you need DIVERSIFICATION.

To create diversification, your investments must be in funds with different characteristics/categories.

If you hire a financial advisor, they will set a stock/bond diversification ratio appropriate for your age.

They will then buy 12-20 funds covering different categories and ensure they have the appropriate stock/bond ratio, but...

- While most financial advisors do a good job setting up the account, the investor can quickly get “out of balance as values shift.” To get back into balance, funds need to be bought and sold. This is called “rebalancing,” and most advisors don’t want to be bothered with “rebalancing.” So, even with a professional advisor, it is easy to slide away from targets
- Following 12-20 funds is overwhelming for investors, so most people throw up their hands and pray that their advisor is doing well.
- Depending on the broker and pressure from their company, they may steer you into high-expense ratio funds or suggest a “load fund” (Oh dear—that would be bad).
- Depending on your relationship, you might have to pay a broker commission every time a fund is bought, further discouraging you from rebalancing.

HOWEVER - you have other options ....

You can take charge of your portfolio and make it simple by purchasing just ONE FUND with the proper diversification you need.

**OPTION #1** – If you want your Stock/Bond ratio to remain FIXED, you buy a fund that includes stocks and bonds at a set ratio that does not change. All the major investment firms offer them.

- Fidelity calls these ASSET MANAGER FUNDS  
<https://www.fidelity.com/mutual-funds/fidelity-fund-portfolios/asset-manager-funds>
- Schwab calls these ASSET ALLOCATION FUNDS  
<https://www.schwab.com/mutual-funds/types/asset-allocation-mutual-funds>
- Vanguard calls these LIFE STRATEGY FUNDS –  
<https://investor.vanguard.com/investment-products/mutual-funds/life-strategy-funds>

**OPTION #2** - If you want your Stock/Bond ratio to CHANGE over time, you buy a fund that includes stocks, bonds, and GLIDES to become more conservative. The industry designed these funds SPECIFICALLY FOR RETIREMENT and called them TARGET DATE FUNDS. All the major investment firms offer them.

- Fidelity calls them FREEDOM FUNDS  
<https://www.fidelity.com/mutual-funds/fidelity-fund-portfolios/freedom-funds>
- Schwab calls them TARGET DATE INDEX FUNDS  
<https://www.schwabassetmanagement.com/products/stir>
- Vanguard calls them TARGET RETIREMENT FUNDS  
<https://investor.vanguard.com/investment-products/mutual-funds/target-retirement-funds>

**It can't get easier than that!**

EXCEPT you need to decide WHICH fund you want to buy... so let's go to the next page for the homework!

**ASSIGNMENT #3:**

Use Morningstar as a research tool to see what’s IN the funds and how the fund is performing. Two Excel forms are provided to record Morningstar metrics.

- Form 12.20 is a BLANK form with no ticker symbols.
- Form 12.22 contains four worksheets whereby the ticker symbols have been provided
  - 12.22a - has the ticker symbol for Asset Allocation funds offered by Fidelity, Schwab and Vanguard
  - 12.22b - has the ticker symbol for Target Date funds offered by Fidelity, Schwab, and Vanguard – the form lists funds from 2020 to 2065
  - 12.22c – has 15 different fund Categories offered – the ticker symbols are listed for Fidelity, Schwab, and Vanguard, so in total, there are 45 funds
  - 12.22d – has 3 different fund Categories offered by Fidelity, Schwab, and Vanguard, so in total, there are 9 funds

1. **RESEARCH at least six asset allocation funds** – Choose three from one equity % group and three from another – It is best to select the equity % close to the stock/bond ratio you might choose for your life enhancement savings. ENTER the metrics for the six asset allocation funds on form 12.22a.
2. **RESEARCH six target date funds** – Choose three from one target year and three from another; preferably, they should all be close to your retirement year, assuming you will retire around age 65. For example, if I were born in 1983, I would turn 65 in 2048, so I might investigate a Target Date fund from 2045 or 2050.

Born between	Two Appropriate Target Date Funds would be:																		
1995      2000	<table border="1" style="border-collapse: collapse; width: 100%;"> <tr><td style="text-align: center; padding: 2px;">2060</td><td style="text-align: center; padding: 2px;">2065</td></tr> <tr><td style="text-align: center; padding: 2px;">2055</td><td style="text-align: center; padding: 2px;">2060</td></tr> <tr><td style="text-align: center; padding: 2px;">2050</td><td style="text-align: center; padding: 2px;">2055</td></tr> <tr><td style="text-align: center; padding: 2px;">2045</td><td style="text-align: center; padding: 2px;">2050</td></tr> <tr><td style="text-align: center; padding: 2px;">2040</td><td style="text-align: center; padding: 2px;">2045</td></tr> <tr><td style="text-align: center; padding: 2px;">2035</td><td style="text-align: center; padding: 2px;">2040</td></tr> <tr><td style="text-align: center; padding: 2px;">2030</td><td style="text-align: center; padding: 2px;">2035</td></tr> <tr><td style="text-align: center; padding: 2px;">2025</td><td style="text-align: center; padding: 2px;">2030</td></tr> <tr><td style="text-align: center; padding: 2px;">2020</td><td style="text-align: center; padding: 2px;">2025</td></tr> </table>	2060	2065	2055	2060	2050	2055	2045	2050	2040	2045	2035	2040	2030	2035	2025	2030	2020	2025
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1965      1970																			
1960      1965																			
1960 or earlier																			

**ENTER the six Target Date fund metrics on form 12.22b.**

**EMAIL your COMPLETED FORM 12.22a and 12.22b  
48 hours before class #4 to the instructor**

**EXTRA CREDIT – strongly recommended to see how Categories have a major impact on performance**

**3. TWO extra worksheets are included for you to do category specific research.**

- Form 12.22c. lists 15 fund categories and the ticker symbols for those offered by Fidelity, Schwab, and Vanguard. Pick **ONE** fund family (thus either Fidelity, Schwab, OR Vanguard) and enter the metrics for the 15 funds.
- Form 12.22d lists 3 fund categories and gives the ticker symbol for Fidelity, Schwab, and Vanguard. Enter the metrics for the nine funds.

Completing either 12.22c or 12.22d will make the dramatic difference in fund performance by category clear.

**4. If you are enrolled in a 401K or IRA retirement plan, pull out your statement and see if you can find the fund in which you are enrolled. Enter that information on 12.22b and compare it to the Target Date fund year you would choose for yourself. There is a blank line where you can enter the metrics.**

To do the above, you need to get the “Ticker” symbol for your fund; try googling the fund name and asking, “What is the ticker symbol for the XXXX fund?”

The metrics you need to enter include:

Morningstar TAB		
<b>1</b>	Quote	Expense Ratio
<b>2</b>	Quote	Morningstar Star rating i.e. 3-Star, 4-star, 5 star
<b>3</b>	Performance	Value of \$ 10,000 if invested in the fund for ten years
<b>4</b>	Performance	Value of \$10,000 if invested in the category for ten years
<b>5</b>	Performance	5 Year avg performance of fund
<b>6</b>	Performance	10-year avg performance of fund
<b>7</b>	Performance	10-year Category performance
<b>8</b>	Portfolio	% Domestic Equities (Stocks)
<b>9</b>	Portfolio	% International Equities (Stocks)
<b>10</b>		The total of columns 8 & 9 should be entered in 10 – that is, the total equities
<b>11</b>	Portfolio	% of Bonds
<b>12</b>	Portfolio	% of other items (such as cash) – column F, G, H, I should add up to 100%
<b>13</b>		The total of columns 10, 11, 12, should equal 100%
<b>14</b>	Risk	Risk of Fund vs. Category. Enter low, avg or high
<b>15</b>	Risk	Return of Fund vs. Category Enter low, avg high

*HINT – The five and 10-year performance are at the BOTTOM of the performance page – but make sure the slide button on the page is on “Month End” (not “Day End or “Quarter End.”).*

**5. MAKE A DECISION - After you have filled out the charts**

- Which fund is best for your retirement?
- What are the criteria you are used to make that decision?

*Pat yourself on the back; you have learned so much that you can now make an informed choice.*

**6. READ:**

12.44 what is a Morningstar category?

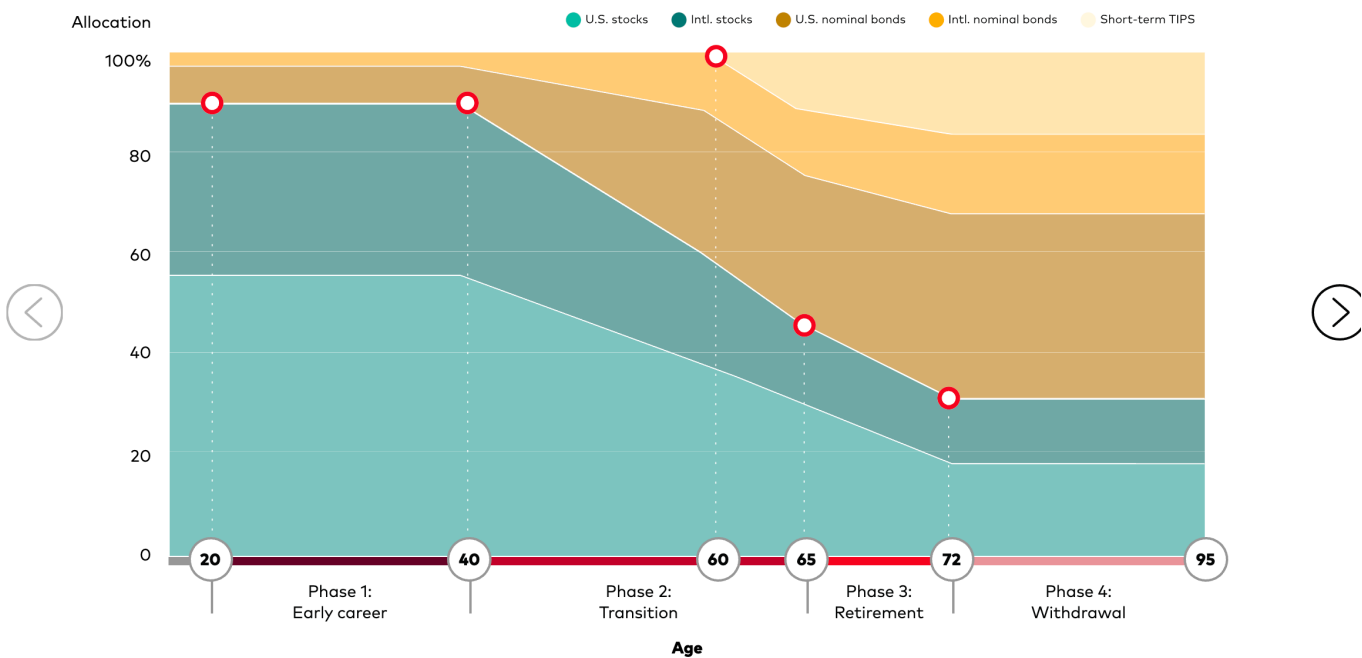
12.46 ETFs vs Mutual Funds – what is the real difference

**7. WATCH**

<https://www.youtube.com/watch?v=vGcOGYkttI4>

*It is 10 minutes long. There may be a five-second ad before YouTube starts, so ignore the ad. You know better!*

8. Finally –look at this nifty chart, which shows how Target Date funds GLIDE over time and how the diversification changes—as it becomes more conservative. BTW – this chart is a very conservative approach:



**What is impressive is that you now understand what is going on.**

Now that was fun... wasn't it?