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Beginning Investing

"An investment in knowledge pays the best interest."

Benjamin Franklin
Beginning Investing
June 1\textsuperscript{st}, 2022

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The best time to plant a tree was 20 years ago.
The second-best time is now
Learning Objectives

- Saving vs. Investing
- Goal setting & time-frames
- Types of accounts
- Retirement Account Options and Roth IRA
- Matching contributions
- Investor Behavior
- Diversification
- Taxes
Learning Objectives

- Saving vs. Investing
- Goal setting & time-frames
Saving vs. Investing

**Savings**
- Emergencies and near-term needs
- Liquid, able to redeem when needed with no reduction
- Safe, little to no risk of loss
- Stability, little to no fluctuation in value

**Investing**
- Longer Time-Frames
- Potential for Growth of principal
- Potential for Loss, fluctuation in value
Saving vs. Investing

**Savings**
- Bank savings account and CD’s
- Money Market accounts
- U.S. Savings Bonds
- Fixed Annuities

**Investing**
- Stocks, Bonds, Mutual Funds
- Real Estate
- Variable Life and Variable Annuities
- Fixed Annuities
Investment Goals

**Short Term**
- Down payment on a house
- Pay all cash for a vacation house

**Medium Term**
- Be Debt-Free by ________
- Pay for a child’s wedding
- Pay for college

**Long Term**
- Provide for Retirement years
- Down payment on Retirement community
Time-Frames

Time-Frames until needed

- Next year for down payment
- 12 years for when child starts college
- 25 years from now when retiring

Time-Frame of use

- Could be down payment on house (one-time)
- Could be child’s college years (over four years)
- Could be to provide for retirement (over 30 yrs)
The Cost of Delay

- Cost of Goals
- Waiting to Save
Learning Objectives

- Types of accounts
- Retirement Account Options and Roth IRA
- Matching contributions
Types of Accounts

**Taxable**
- Activity shows up on tax return
- Interest, Dividends, Capital Gains
- Can claim a capital loss
- Tax-Free income has no impact on taxes

**Tax Deferred**
- Regardless of activity, is not reflected on tax return
- No claiming capital loss
Types of Accounts

Taxable
- Individual or Joint Account
- Custodial Accounts (for minors)
- Trust Accounts

Tax Deferred
- Retirement Plans (401k, 403b, 457, TSP)
- IRA (Traditional, Rollover, Roth)
- 529 (College Savings)
- Annuities (retirement)
- Life Insurance (Death Benefit, Estate & Business)
- Health Savings Account (medical)
<table>
<thead>
<tr>
<th>Retirement Account Options</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>401K, 403b, Traditional IRA</strong></td>
<td><strong>Roth IRA &amp; Roth 401K/403B</strong></td>
</tr>
<tr>
<td>• Tax Deduction Up Front</td>
<td>• No Tax Deduction</td>
</tr>
<tr>
<td>• Tax Deferral During</td>
<td>• Tax Deferral During</td>
</tr>
<tr>
<td>• Taxed upon withdrawal</td>
<td>• <strong>No Tax</strong> upon withdrawal</td>
</tr>
</tbody>
</table>
Retirement Account Options

401K, 403b, Traditional IRA

- Ability to borrow from employer plan
- Penalty < age 59 & ½
- Req. Min Dist. age 72
- $20,500/yr. limit
- $6,000/yr limit IRA

Roth IRA & Roth 401K/403B

- Withdrawal of contribution any time
- Penalty < age 59 & ½
- No Req. Min Distribution
- $20,500/yr. limit
- $6,000/yr. limit Roth IRA
Roth IRA Portions

Growth Of Account

Contribution To Account
Roth IRA Considerations

- Tax Free withdrawals during retirement
- Can always remove contributions

- Contribute to Roth IRA when Income Eligible

- Convert existing retirement assets into Roth IRA’s during Low-Income years
  - Report on Tax Return that year as income
  - Low to non-existent federal taxes during school years
  - Early retirement years when in a low tax bracket
## Matching Contributions

<table>
<thead>
<tr>
<th>Without Employer Match</th>
<th>With Employer Match</th>
</tr>
</thead>
<tbody>
<tr>
<td>• $100,000 Salary</td>
<td>• 50% match up to 4%</td>
</tr>
<tr>
<td>• 4% Employee Contribution</td>
<td>• 2% Employer contribution</td>
</tr>
<tr>
<td>• 6% Rate of Return</td>
<td>• 6% Rate of Return</td>
</tr>
<tr>
<td>• $333.33 / Month Contribution</td>
<td>• $166.67 / Month Employer Contribution</td>
</tr>
<tr>
<td>• $220,430 after 25 years</td>
<td>• $330,645 after 25 years</td>
</tr>
<tr>
<td>• $294,051 with 3% raise</td>
<td>• $441,076 with 3% raise</td>
</tr>
</tbody>
</table>
Typical Investor Behavior Pattern

GREED/BUY

FEAR/SELL

...REPEAT UNTIL BROKE!

BEHAVIORGAP.COM
2000 - 2013 U.S. Stock Market
Investor Behavior

INVESTMENT
RETURN

INVESTOR
RETURN

BEHAVIOR GAP
Mitigate Investment Risk

- Have a long term perspective
- Diversify across asset classes
# Diversification Across Multiple Asset Classes

<table>
<thead>
<tr>
<th>Category</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stocks</td>
<td>A share of a company</td>
</tr>
<tr>
<td>Bonds</td>
<td>Corporations, Universities, Federal, State, Local governments</td>
</tr>
<tr>
<td>Cash</td>
<td>Money Market Funds</td>
</tr>
<tr>
<td>Real Estate</td>
<td>Apartments, Malls, Offices, Health Care Facilities</td>
</tr>
<tr>
<td>Commodities</td>
<td>Oil &amp; Gas, Livestock, Agricultural, Timber, Gold</td>
</tr>
<tr>
<td>Alternatives</td>
<td>Crypto, Collectibles</td>
</tr>
</tbody>
</table>
Diversification...
Diversification Reduces Volatility

The Theory of Diversification

\[ X = \text{Risky Investment } \#1 \]
\[ Y = \text{Risky Investment } \#2 \]
\[ Z = \text{Less Risky "Portfolio} \]
100% Stock vs. 60/40 Stock/Bond Mix
100% Stock vs. 60/40 Stock/Bond Mix
### HOW

| **Make Investing part of your budget no matter how small** | **Most likely through your retirement plan at work**  
| | **Dollar Cost Averaging** |
| **Take a balanced approach appropriate for your goals and risk tolerance** | **Keep it simple**  
| | **Coordinate all of your accounts.** |
Various Portfolios

**Aggressive**
- Bonds: 20%
- Large-cap stocks: 40%
- Foreign stocks: 20%
- Small-cap stocks: 20%

**Moderate**
- Bonds: 45%
- Large-cap stocks: 30%
- Foreign stocks: 15%
- Small-cap stocks: 10%

**Conservative**
- Bonds: 70%
- Large-cap stocks: 15%
- Small-cap stocks: 5%
- Foreign stocks: 10%
Where can you Invest?

- Banks
- Trust Companies
- Brokerage Firms
- Online/Apps
- Insurance Companies
- Mutual Fund Companies
- Advisory Firms
- DRIP’s

- Wells Fargo, PNC
- US Trust
- Morgan Stanley, Merrill
- E-Trade, RobinHood, Acorn
- MetLife, NY Life
- Vanguard, Fidelity, TIAA-CREF
- Literally 1000’s
- Each Company
What can you invest in

- Stocks
- Bonds
- Mutual Funds
- Annuities
- Limited Partnerships
- Life Insurance*
- Hedge Funds
- ETF’s
- Cash
- Commodities
- Real Estate & REIT’s
- Tax Credits
- CD’s
- Options
- Horse Breeding
- Collectibles
- Bitcoin
- Life Settlements
- Litigation Finance
Mutual Fund

- Collection of investor funds used to purchase investments
- Shares are Priced at the end of the day after expenses are removed
- Managed by a Fund company
- Can be narrowly focused (just U.S. stocks)
- Can be broad (multiple asset classes)
- Can follow a set list (index, passive)
- Fund manager has discretion (active)
Growth & Value

Growth investing

Focus on companies that managers believe will experience faster than average growth as measured by revenues, earnings, or cash flow. Primarily use earnings to develop new products.

Value investing

Focus on companies whose stock prices don’t necessarily reflect their fundamental worth. Often investing in mature companies that are primarily using their earnings to pay dividends.
Market Capitalization

The market value of a company's outstanding shares. This figure is found by taking the stock price and multiplying it by the total number of shares outstanding.

- Large: >$10 Billion
- Mid: $2B - $10B
- Small: < $2B
Fill In The Box

Morningstar Style Box™

- Large
- Medium
- Small

- Value
- Blend
- Growth
Fill In The Box

Morningstar Style Box™

Approx. 75% of U.S. Stock Market
Accredited Investor

- Income > $200,000 in each of two prior years and expectation to continue or joint income of >$300,000 with spouse
- Net Worth > $1,000,000 exclusive of primary residence
- Certain securities licenses (Series 7, 65, 82)

Can invest in Reg. D Private Placements
Illiquid Investments

Illiquidity occurs when a security or other asset that cannot easily and quickly be sold or exchanged for cash without a substantial loss in value.
Costs Are a Drag

- Commissions – Prefer to avoid
- Transaction Costs – Less is More
- Expense Ratio – Lower is better
- Income Taxes
- Capital Gains Taxes
“In this world nothing can be said to be certain, except death and taxes.”
Benjamin Franklin 1789
• Income
• Taxable Interest
• Dividends
• Capital Gains
• Rental Income
• Royalties
• Partnership Payouts

• It all flows into your AGI
# 2022 Tax Brackets (single)

<table>
<thead>
<tr>
<th>Taxable Income Ranges</th>
<th>Marginal Tax Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 - $10,275</td>
<td>10%</td>
</tr>
<tr>
<td>$41,775</td>
<td>12%</td>
</tr>
<tr>
<td>$89,075</td>
<td>22%</td>
</tr>
<tr>
<td>$170,050</td>
<td>24%</td>
</tr>
<tr>
<td>$215,950</td>
<td>32%</td>
</tr>
<tr>
<td>$539,900</td>
<td>35%</td>
</tr>
<tr>
<td>&gt;$539,900</td>
<td>37%</td>
</tr>
</tbody>
</table>
Capital Gains (2022) depends on Taxable Income Levels

<table>
<thead>
<tr>
<th>Status</th>
<th>0% Rate</th>
<th>15% Rate</th>
<th>20% Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>&lt; $41,675</td>
<td>$41,676 - $459,750</td>
<td>&gt; $459,750</td>
</tr>
<tr>
<td>Married – Joint</td>
<td>&lt; $83,350</td>
<td>$83,351 - $517,200</td>
<td>&gt; $517,200</td>
</tr>
</tbody>
</table>
Capital Gains
Schedule D

- Sales Price
- Cost Basis*
- Gain or Loss

- Short Term: Owned less than 1 year
  - Taxed as Income
- Long Term: Owned > 1 year
  - Taxed at lower capital gain tax rate

*Cost Basis = purchase plus all reinvestments
Capital Gains

Short Term Gain - Short Term Loss = Net Short Term
Long Term Gain - Long Term Loss = Net Long Term

Net the two together to get a net Gain or Loss
Up to $3,000 of losses can be used to lower income
Carryover unused losses until all used up
Cannot Claim a loss on the sale of an item if repurchased within 30 days after (or before). This is a 61 day window.

- Cannot purchase a substantially identical item either.
- Index fund and ETF of the same index purchased no
- Ford vs. GM would be ok
Wash-Sale Rules

Buy $10 stock on Feb. 1\textsuperscript{st}

Sell $7 stock for a $3 loss Feb 20\textsuperscript{th} (s/t loss)

Buy back same stock 10 days later for $6

Cannot claim that loss until finally sell that stock

Amount of loss is added to cost basis of 2\textsuperscript{nd} purchase ($6+$3 = $9)
Be Tax Efficient

- Contribute to Tax Deferred Accounts to lower your taxable income
  • Employer Retirement Plans like 403b, 401k, etc.
  • IRA’s, Flexible Spending Accounts & HSA’s

- Shift High Yield investment into Tax Deferred Accounts
  • Taxable Bond’s and Dividend oriented investments

- Life Insurance & Annuities
  • Tread carefully with these products
• Contributions to Retirement Plans are Pre-Tax.

• Reduces Taxable Income

• $20,500 for 2022

• 24% Marginal Tax Bracket MTB

• $4,920 less Federal Taxes
Taxes & Retirement Accounts

(2 of 3)

- Tax Deductible
- Tax Deferred
- Tax Free

Upfront reduction in Income

Earnings not taxable while inside the account

Withdrawals are not reported as income and not subject to tax.
### Taxes & Penalties?

<table>
<thead>
<tr>
<th>Account Type</th>
<th>Tax Deductible</th>
<th>Tax Deferred</th>
<th>Earnings Tax-Free</th>
<th>&lt; age 59 &amp; ½ Penalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Plan</td>
<td>$</td>
<td>$</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Traditional IRA*</td>
<td>$</td>
<td>$</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Roth IRA</td>
<td>$</td>
<td>$</td>
<td>$*</td>
<td>$**</td>
</tr>
<tr>
<td>Qualified Annuity**</td>
<td>$</td>
<td>$</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Non-Qualified Annuity</td>
<td>$</td>
<td>$</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Life Insurance</td>
<td>$</td>
<td>$</td>
<td>$*</td>
<td>N/A</td>
</tr>
<tr>
<td>Taxable Accounts</td>
<td>$***</td>
<td>Capital gain/loss</td>
<td></td>
<td>N/A</td>
</tr>
<tr>
<td>HSA</td>
<td>$</td>
<td>$</td>
<td>$*</td>
<td>N/A</td>
</tr>
<tr>
<td>529</td>
<td>$</td>
<td>$</td>
<td>$*</td>
<td>N/A</td>
</tr>
</tbody>
</table>

*with conditions  **came from pre-tax funds  ***Takes Effort
Be Tax Efficient

- Take Income & Bonuses in low tax years
- Itemize your expenses that can offset income
- Offset Capital Gains with Capital Losses
- Make Charitable contributions that are tax-deductible
Putting all the pieces together
Retirement Projection Assumptions

- $100,000/year Salary with 3% raise
- 4% Contribution to Employer Retirement Plan
- Age 26 to 65, Live to 95
- 5% Rate of Return
- Retire and withdraw 4% of account value a year increasing with inflation (4%)

$301,605 in contributions over 40 year career = $72,385 in tax savings
Retirement Projection

Retirement Account Over Time
4% Contribution Rate = $301,605 Total Contributions
Approx. $72,385 in tax savings (24% MTB)
4% withdrawal, increasing by 4% each year
30 years = $1,695,089 in Cumulative Withdrawals
Retirement Projection

Retirement Account Over Time **With Matching $$$**

- Half Match (50% of contributions = 2% of pay)
- 4% Contribution Rate = $301,605 Total Contributions
- Approx. $72,385 in tax savings (24% MTB)
- 4% withdrawal, increasing by 4% each year
- 30 years = $2,542,634 in Cumulative Withdrawals
- 5% rate of return, remaining balance = $8,798
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Benjamin Franklin
Questions?
Contact Information

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Talk with your Spouse Now

MY VIEW
OF
$

YOUR VIEW
OF
$
Or Talk with their Attorney Later

Complex money issues you have to deal with

Before divorce

During divorce process
OUTSIDE HELP
Why Hire an Advisor?

- Budgeting
- Investment Management
- Estate Planning
- Tax Planning
- Insurance Planning
- Social Security, Medicare/Medicaid Planning
- Business Planning
- Sudden Wealth?
Picking an advisor

• What licenses, Training, Experience
• What Services do you need
  – Level of Service
• How are fees charged
  – All fees
  – Conflicts of Interest
Confused?

- Financial Advisor
- Investment Manager
- Financial Planner
- Investment Advisor
- Financial Counselor
- Planner
- Estate Planner
- Wealth Manager
- Chartered
- Certified
- Credentialed
- Registered
- Certificant
Recognize any of these?

- CFP
- CLU
- ChFC
- CIMA
- CWM
- JD
- CPA
- CFA
- CMT
- CDFA
- CCPS
- EA
Regulatory Authorities

Securities and Exchange Commission (SEC)
- Registered Investment Advisors (RIA)

Financial Industry Regulatory Authority (FINRA)
- Stock Brokers

State Department of Banking
- State level RIA’s

State Department of Insurance
- Insurance Agents
Your Data

**Income & Expenses**
Current and Future
(Make a Budget)

**Assets:**
- Residences
- Investments
- Collectables and Personal Property

**Liabilities:**
- Mortgages
- Auto and Consumer Debts
- Student Loans
Expressing yourself

What do you want them to do for you

- Double my money
- Outperform the market
- Teach my children
- Retire at 55
- Create income that pays for everything
Expressing yourself

What are your fears

- Running out of money
- When to retire
- Too much debt
- Taking care of your parents
- Paying for your kids education
- Fear of market drops!!!
Expressing yourself

What are your experiences
- Used a broker in the past
- What you liked/disliked
- Not understanding something
- Felt underappreciated
Expressing yourself

What are your hang-ups
  – Inherited stock from Grandad
  – Love Apple products
  – No International investing
  – Social Conscience
Types of Individual Federal Taxes

- **Income Tax**
  - Earned Income (wages)
  - Unearned Income (interest, dividends, rents, annuities)

- **Capital Gains Taxes**
  - Sell for a Gain, pay a tax
  - Certain income ranges to pay at least a min. amt. of tax.

- **Alternative Minimum Tax**
  - The value of your estate can be taxed at your death
  - If you give to someone else over a limit, you can be taxed on the value.

- **Estate & Gift Taxes**
  - Additional payroll tax above certain thresholds
  - New Medicare tax on Net Investment Income above threshold

- **Social Security & Medicare Taxes**

- **Medicare Surtax**
Types of Individual Local Taxes

- **Income Tax**: Earnings/wages are taxed.
- **Sales Taxes**: Everything you buy may be subject to a sales tax.
- **Real Estate Taxes**: Yearly and upon transfer.
- **Estate or Inheritance Tax**: Either paid by the Estate or by the Beneficiary.
Roth IRA

• Individual retirement account that you set up
• Contribute dollars “After-Tax”
• Account grows Tax-Deferred
• Entire account is tax free in retirement

• Your contributions can be used at any time with no penalty or tax
• Contributions **subject to income limits**

  - Single  $129,000 - $144,000
  - Married/Joint  $201,000 - $214,000
For those with income above phase-outs

1. Make a contribution to a non-deductible Traditional IRA

2. Convert that account to a Roth IRA
   • It already was after-tax money so no new tax
   • Should be only IRA money to avoid pro-rata conversion.

♥ Don’t “Rollover” when leaving employer, put in new employer retirement plan (transfer).
Changing Employers
Five Options

1. Leave Existing Retirement Plan where it is
2. Lateral Move $$$ to New Employer’s Retirement Plan
3. “Rollover” to a Traditional IRA
4. “Convert” that account to a Roth IRA
5. Withdraw and Spend it
Back Door Roth IRA Steps

1. Contribute to a non-deductible Traditional IRA
2. Convert those funds to a Roth IRA
   - It is entirely after-tax money so no tax or penalty to do so
   - No income limit to do so
Back Door Roth IRA Problem

Rollover IRA is a Traditional IRA with Pre-Tax Dollars

Rollover IRA
Or
SEP-IRA

Non-Deductible
Traditional
IRA

Roth IRA
Back Door Roth IRA Problem

Rollover IRA is a Traditional IRA with Pre-Tax Dollars
IRS will tax the conversion dollars on a pro-rata basis
• “Money often costs too much.”

• Ralph Waldo Emerson