

Virginia Financial Literacy Summit
Virginia Jump\$tart Coalition for Personal Financial Literacy

James M. Shepherd, CPA, CFP®

The Cost of the Unknown

- American resources
- The importance of education in investments
- Investments are the fuel that allow you to reach your goals and objectives
- The environment is favorable for institutions
- There is tremendous opportunities to utilize financial resources efficiently

Facts

- Happiness does not increase exponentially after a household income rises above \$50,000 (Roper ASW, Money Magazine October 2003)
- 25% of US households make more than \$75,000
- The median income in America is \$42,228 (Bureau of Census)

Controlling Your Destiny

- “There is a very strong relationship between feeling in control of your finances and feeling happy about your finances and happy with your life. Control over your finances plays a bigger role in determining your life’s happiness than being in control of your job, your health, your friendships and your weight.”

(Roper ASW, Money Magazine December 2003)

Types of Risk

- Interest Rate Risk
- Inflation Risk
- Business Risk
- Financial Risk
- Liquidity Risk
- Market Risk
- Political and Regulatory Risk
- Exchange Rate Risk
- Call Risk

Understanding Risk - Capital Asset Pricing Model William Sharpe: Nobel Prize in Economics, 1990

Total Company Risk



Unsystematic

- Specific to firm or industry (lawsuit, fraud, etc.).
- Diversifiable.
- No compensation.

Systematic

- Marketwide, affects all firms (war, recession, inflation, etc.).
- Non-diversifiable.
- Investor compensation.
- Measured by beta.

Beta measures volatility relative to the total market. A beta higher than the market's beta of 1 implies more volatility, and a beta lower than the market's implies less volatility.

Why should I... Save Invest

- | | |
|--|---|
| <ul style="list-style-type: none"> • Put a safety net in place • Eliminate the burden of debt • Take advantage of tax savings and Employer matching • Prepare for financial independence | <ul style="list-style-type: none"> • Let your money work for You • Harness the power of time value of money • Achieve financial goals • Supplement your income –AICPA Study • You probably will not have a pension |
|--|---|

Interest Rates

- Two ways of calculating
 - Simple Interest
 - Interest = principal * interest rate * time
 - Easy to calculate using a basic calculator
 - Compound Interest
 - Future Value = Today's Amount * (1 + interest rate) ^ time
 - More complex calculation, requires financial calculator or computer (Microsoft Excel has several excellent Financial Calculators built-in).
- Interest Rates can fluctuate constantly
 - Economic factors
 - Intervention from the government

Simple vs. Compound Interest

If we begin with \$10,000 earning 5% interest over 5 years, what will the difference in total interest be between simple and compound?

	Simple	Compound
Year 1	\$500.00	\$500.00
Year 2	\$500.00	\$525.00
Year 3	\$500.00	\$551.25
Year 4	\$500.00	\$578.81
Year 5	\$500.00	\$607.75
Total	\$2,500.00	\$2,762.81

Albert Einstein

"The most powerful force in the universe is compound interest"

Is there a cost to waiting?

	Early Investor	Late Investor
Age 25	Invests \$100/month	Invests \$300/month
Age 45		
Age 65...		
Total invested	\$48,000	\$72,000
Total Account Earnings	\$301,100	\$104,706
Total account value	\$349,100	\$176,706

Hypothetical illustration assumes each account earns an annual rate of return of 8 percent and is for demonstration purposes only. Systematic investment plan does not ensure a profit nor guarantee against loss. Investors should consider their financial ability to continue their purchases through periods of low price levels.

Savings and Investment Options

- Taxable Accounts
 - Checking Accounts, Savings Accounts, CD's, Money Market Accounts, etc.
- Tax-Advantaged Accounts
 - 401(k), 403(b), IRA, Roth IRA, SEP IRA, Simple IRA, College 529 Plans, etc.

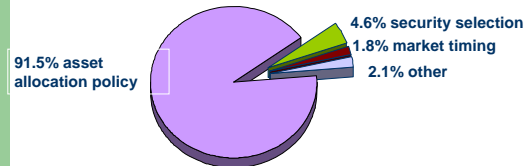
Savings and Investment Options

Types of Investments

- Stocks
- Bonds
- Mutual Funds
- Real Estate
- International
- Commodities

Investment Return

The majority of **Variance** in a portfolio's return is determined by long-term strategic asset allocation.



Source: "Determinants of Portfolio Performance", Brinson, Hood, Beebower, *Financial Analysts Journal*, July/August 1986. Updated in *Financial Analysts Journal*, May/June 1991. Past performance is no guarantee of future results.

Peter Lynch

"All the time and effort that people devote to picking the right fund, the hot hand, the great manager, have in most cases led to no advantage."

Financial Implications of an Inheritance

- Federal Estate Taxes
 - The 2007 unified gift and estate tax exemption is \$2,000,000.
- State Estate Taxes
 - As of July 1, 2007, the state of Virginia has repealed all estate taxes.

What is Going On?

• 2007	\$2,000,000	45%
• 2008	\$2,000,000	45%
• 2009	\$3,500,000	45%
• 2010	Repealed	0%
• 2011	\$1,000,000	55%

Estate Planning

- Some of the basic and essential estate planning tools:
 - Joint Ownership with the Right of Survivorship
 - Joint Tenants by the Entirety
 - Beneficiary designations (Very Important)
 - Wills
 - Trusts
 - POA
 - Medical Directives