

## **\$aving & Investing**





April 19, 2021

#### You've created a Budget and a Savings goal.. NOW WHAT??

	<b>CHECKING</b> Account	SAVINGS Account	INVESTMENT Account(s)
What For:	Regular Expenses	<ul><li>Cash Reserves for:</li><li>Emergencies</li><li>(Big) One-time Purchases</li></ul>	<ul> <li>Put your savings "to work":</li> <li>Building Net Worth</li> <li>Plan for Retirement</li> </ul>
Why:	"Pay the rent/bills" "Regular amount of entertainment / shopping"	"Handle negative surprises" "Planning Ahead of Known Events on horizon"	"Keep up with Inflation" "Grow with Economy" "Prepare to buy a House / save for College/Retirement"
How Much? (all rules of thumb)	Enough to cover 1+ month's regular expenses (or more)	~ <u>1-2 months of regular</u> <u>expenses</u> + any <u>large</u> <u>upcoming expenditures</u> (e.g. travel, moving, new phone)	Excess Amount of Savings that you don't have a "known need" for in the next 6–12 months
What can	~0.1% - 1.0%	~1.0 - 2.0%	~4 – $10\%$ (not risk-free tho!)

(per year)

I make?

#### You receive \$2,500 in the mail... and you have two choices...



What do you do and why?

#### You receive \$2,500 in the mail... what do you do with it?



#### What does either choice provide you?

#### **Buy Shares of Kellogg's?**

#### **Buy Gold?**

What Do You Own?

- Slice of Kellogg's profits
- 400 votes at Shareholder Meetings
- $\sim 1/10^{\text{th}}$  of a pound of Gold

Why own this?

- Expect Kellogg's sales (and <u>profits</u>) to remain steady or grow
- Receive cash dividends from Kellogg's profits
  - Currently 3.6% per year (\$90 on your \$2,500)

- Expect Price of Gold to Increase
  - Why would it do that?
- Gold has a ~5,000 year history of recognized "store of value"

#### Let's dive a little deeper into the fundamentals...



2020 Annual Results: Kellogg's	<u>Amount</u>	% of Sales	
Sales / Revenue	\$13.8bn	100.0%	
Cost of Sales (inputs/factories/distrib.)	(\$9.1bn)	(65.6%)	
Gross Profit	\$4.7bn	34.3%	
Sales / Corp. overhead / other	(\$2.2bn)	(17.0%)	
Advertising expense	(\$0.8bn)	(5.7%)	
Pre-tax Profit	\$1.6bn	11.6%	
Taxes	(\$0.3bn)	(2.4%)	
Net Income	\$1.26bn	<b>9.2%</b>	
Shares Outstanding	344 million	B	
Earnings Per Share (EPS)	$3.65 / \text{share } \mathbf{C} = \mathbf{A} \div \mathbf{B}$		

Current Kellogg Share Price

\$63.30 / share 🕥

17.3x  $\mathbf{Z} = \mathbf{Y} \div \mathbf{C}$ 

**Price-to-Earnings (P/E multiple)** 



Looks pretty, but sort of just sits there

Relatively cheap to store (safe-keeping cost)

Can't "print" more of it

Requires others to believe it has "value"

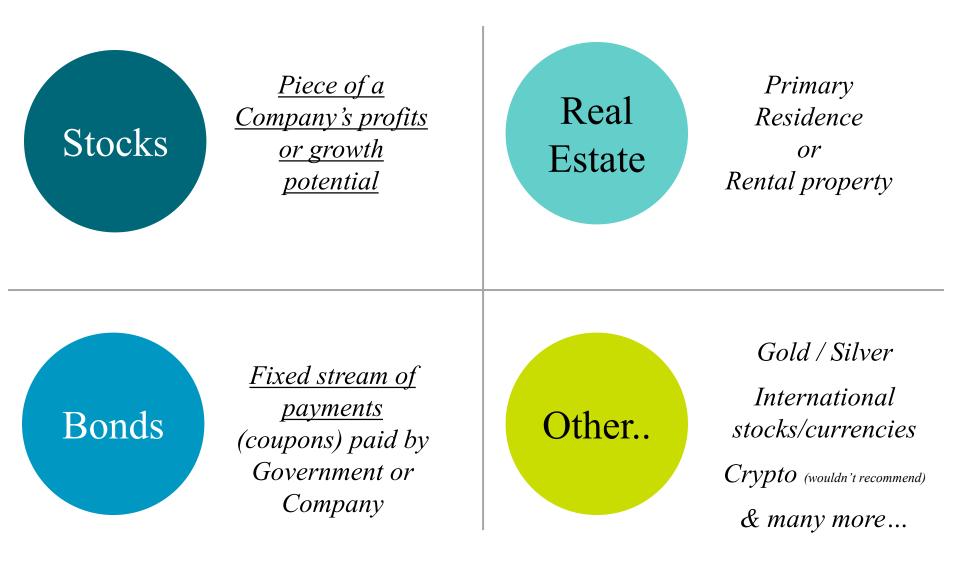
Doesn't generate profits or pay dividends

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Source: Yahoo Finance and Morningstar.com

#### Thankfully those aren't your only two choices...



### Where and How Do I Start Investing?



- Able to put money in or take cash out anytime
- Can buy stocks, bonds, or mutual funds/ETFs ("baskets of stocks")
- Most trading has no commissions
- Selling will trigger tax consequences





Robinhood

Retirement / Special Accounts



#### • Benefit from special tax advantages

- 401k programs are offered by most employers (auto-deducted from your paycheck, <u>on a pre-tax basis</u>)
- Some restrictions on withdrawal & limitations on how much/when you can deposit funds
- Typically limited to selecting from a defined list of funds, usually Mutual Funds (pools or stocks or bonds)

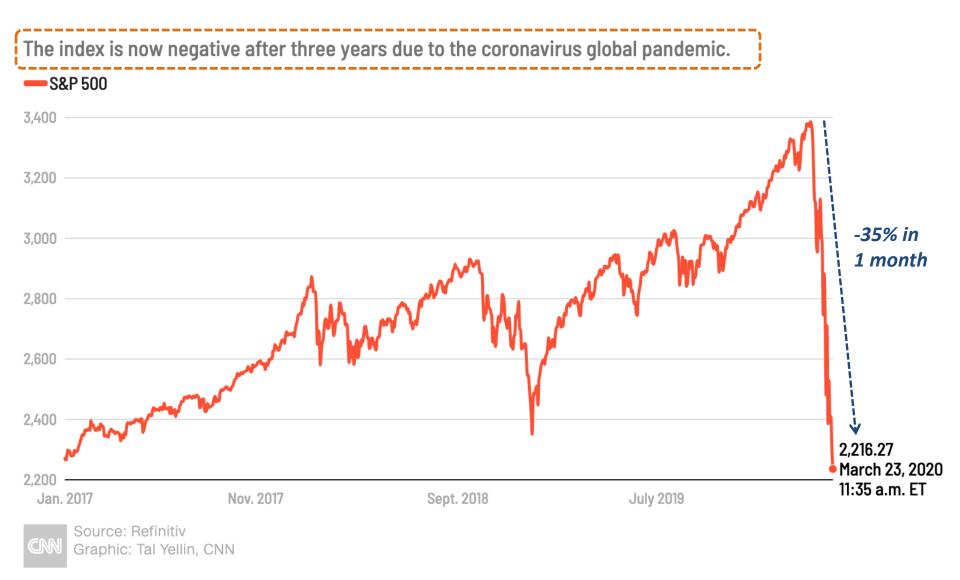




#### Investing <u>can</u> be lucrative...



#### ...But remember: stocks/assets don't always "just go up"!



#### **General Prudent Guidelines**

### Do's

- <u>Take care of your Checking and Savings</u> <u>Accounts first</u>
  - only invest money you don't need anytime soon
- <u>Start Investing as Early as you can</u> ("compound interest is the 8<sup>th</sup> wonder of the world")
- Get and stay diversified!
  - ("a little bit of everything" approach)
- <u>Avoid high fees (Vanguard ETFs are great</u> and low cost)
  - \$VIG, \$QQQ, \$DIA, \$REET are great starters
- <u>Stick with companies you know will be</u> <u>around in 10 years</u>
  - E.g. Microsoft, Amazon, Apple, J&J, Walmart, P&G, Coca-Cola, J.P. Morgan
- Have some <u>fun</u> with it!

## **DON'TS**

- Day trade it's impossible to time market!
- Over-concentrate your portfolio in one stock or fund
- Be wary of "high flying" companies that don't generate a lot of profits or cash
- Remember that you will owe taxes on gains (especially if you've held for <1 year)
- Be careful investing in Company's that have a lot of debt or are highly volatile
- When the market inevitably goes down (a "correction"), try not to panic (not easy!)
- <u>Remember you worked hard for this money,</u> <u>don't treat it with disrespect!</u>

# QUE\$TION\$?