



Money Mondays

Saving & Investing



April 19, 2021

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

CHECKING Account

SAVINGS Account

INVESTMENT Account(s)

What For:	Regular Expenses	Cash Reserves for: <ul style="list-style-type: none"> • Emergencies • (Big) One-time Purchases 	Put your savings “to work”: <ul style="list-style-type: none"> • Building Net Worth • Plan for Retirement
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? <i>(all rules of thumb)</i>	<u>Enough to cover 1+ month's regular expenses</u> (or more)	<u>~1-2 months of regular expenses</u> + any <u>large upcoming expenditures</u> (e.g. travel, moving, new phone)	<u>Excess Amount of Savings</u> that you don't have a “known need” for in the next 6–12 months
What can I make? <i>(per year)</i>	~0.1% – 1.0%	~1.0 – 2.0%	~4 – 10% <i>(not risk-free tho!)</i>

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

Buy Shares of Kellogg's?

(~400 shares of \$K)

Kellogg's[®]



Buy Gold?

(~150 shares of \$GLD)

I LOVE
GOOOLD!



What do you do and why?

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

**Buy Shares
of Kellogg's?**

Buy Gold?

**WHAT Do
You Own?**

?

?

**WHY own
this?**

?

?

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
- ~1/10th of a pound of Gold

Why own this?

- Expect Kellogg's sales (and profits) 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...



<u>2020 Annual Results: Kellogg's</u>	<u>Amount</u>	<u>% of Sales</u>
Sales / Revenue	\$13.8bn	100.0%
<u>Cost of Sales (inputs/factories/distrib.)</u>	<u>(\$9.1bn)</u>	<u>(65.6%)</u>
Gross Profit	\$4.7bn	34.3%
<u>Sales / Corp. overhead / other</u>	<u>(\$2.2bn)</u>	<u>(17.0%)</u>
<u>Advertising expense</u>	<u>(\$0.8bn)</u>	<u>(5.7%)</u>
Pre-tax Profit	\$1.6bn	11.6%
<u>Taxes</u>	<u>(\$0.3bn)</u>	<u>(2.4%)</u>
Net Income	\$1.26bn ^A	9.2%
Shares Outstanding	344 million ^B	
Earnings Per Share (EPS)	\$3.65 / share ^{C = A ÷ B}	
Current Kellogg Share Price	\$63.30 / share ^Y	
Price-to-Earnings (P/E multiple)	17.3x ^{Z = Y ÷ C}	

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

So which has performed better?

Trailing 15-year returns
(annualized)

Kellogg's: 5.0%

Gold: 7.1%

Dividends X



Dividends X



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



Stocks

*Piece of a
Company's profits
or growth
potential*



Real
Estate

*Primary
Residence
or
Rental property*



Bonds

*Fixed stream of
payments
(coupons) paid by
Government or
Company*



Other..

*Gold / Silver
International
stocks/currencies
Crypto (wouldn't recommend)
& many more...*

Where and How Do I Start Investing?

Personal Accounts

(taxable)

Brokerage Account

- 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

EXTRADE

Robinhood

TD Ameritrade

Retirement / Special Accounts

401k

IRA

529 plan

- **Benefit from special tax advantages**
 - 401k programs are offered by most employers (auto-deducted from your paycheck, on a pre-tax basis)
- **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*)

Fidelity INVESTMENTS

Vanguard

Investing can be lucrative...



Source: Refinitiv
Graphic: Tal Yellin, CNN

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

The index is now negative after three years due to the coronavirus global pandemic.



CNN Source: Refinitiv
Graphic: Tal Yellin, CNN

General Prudent Guidelines

Do's

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

QUESTIONS?