

\$aving & 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:Emergencies(Big) One-time Purchases | Put your savings "to work": 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? (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 | 9.2% | |
| 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"

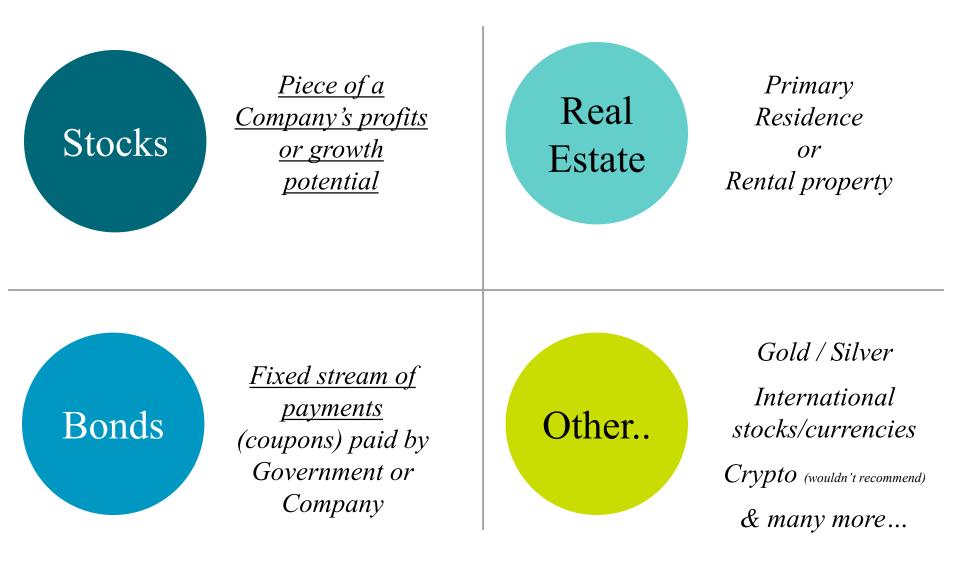
Doesn't generate profits or pay dividends

6



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)

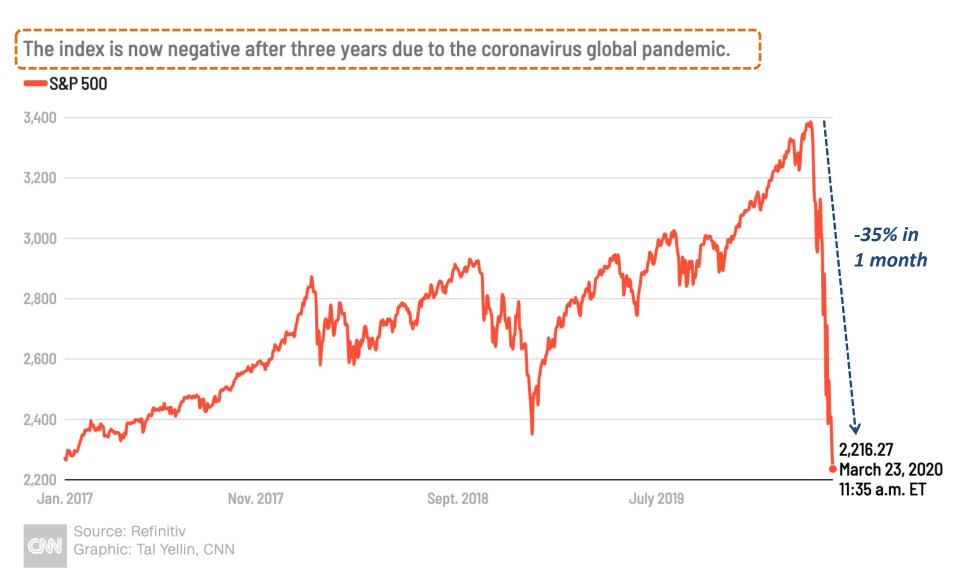




Investing <u>can</u> be lucrative...



...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 8th 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\$?