FINANCIAL BUILDING BLOCKS BY HUB

Investing

Many people find it a bit challenging to get interested and engaged with investing and the planning and strategy that comes with it. After all, there is a lot to learn and understand.

This handout is intended to give you some of the basic investing concepts you need to know, along with common best practices. But most of all, it's intended to get you to take action with your financial future through investing. The confidence and sense of empowerment that comes with having a formal investment strategy to meet your financial goals can be very powerful.

How Do You Know if You're Ready?

Since investing always includes some risk, it's important to have a solid financial foundation before you begin. Here are some key things to make sure you have covered to make sure you're ready to invest:

- You have a steady income (sounds obvious, but it's kind of important).
- You have money left over after meeting your financial obligations.
- You've considered the effect of upcoming personal changes, such as marriage, children, or divorce, before investing.
- You've built up your savings, including a 3-6 month emergency fund, before establishing an investment account.

Four Building Blocks to Becoming an Investor

Ready to start your investing journey? Follow these four simple educational building blocks to help get started.

1. Learn Which Investments are Appropriate For Your Financial Goals

Whether it's saving for retirement, buying a new home, funding a college education, or any other financial goal, here's a quick look at the key types of investments available to help you achieve them.

STOCKS

A stock (also known as "shares" or "equity") is a type of security that signifies proportionate ownership in the issuing corporation. This entitles the stockholder to that proportion of the corporation's assets and earnings. Stocks are bought and sold predominantly on stock exchanges and are the foundation of nearly every portfolio.

Stocks (and stock mutual funds) have a high return potential, but the potential risk with stocks is also high. They are typically considered as part of a long term investment, such as a 401(k) or IRA, where you have much more time on your side and can afford to be more aggressive and take on more risk. They may not make sense for a short term investment where safety and stability are more of a priority.

BONDS

Bonds are used by companies, municipalities, states, and sovereign governments to finance projects and operations. Owners of bonds are debtholders, or creditors, of the issuer. Bond details include the end date when the principal of the loan is due to be paid to the bond owner and usually includes the terms for interest payments made by the borrower.

Bonds (and bond mutual funds) are known for consistent, moderate returns, which may work best in a medium term investment (such as a college fund) where you can take on some risk, but not a lot. In addition, as you get closer to retirement (within 10 years in general), bonds and bond funds may also become a bigger part of your retirement account portfolio if you are looking to go less heavy on stocks but still want some growth potential.

CASH EQUIVALENTS

Cash equivalents include money market funds, U.S Treasury Bills and short term government bonds as well. They're known for consistent, lower returns (but with much lower risk), which may make more sense for a shorter term investment (such as saving for a down payment on a house). As you get closer to retirement (within 5-10 years in general), cash equivalents may also become a bigger part of your retirement account portfolio if you are seeking much more safety at this life stage.

2. Embrace Diversification

Putting your money into a number of different types of investment options that include different types of asset classes can help reduce risk. Generally speaking, if your dollars are invested in materially different types of investments, and market conditions cause one of your investments to not do well, all of your money shouldn't be affected. There is perhaps no better way to illustrate this than to look to the story of Life Savers candy.

Clarence Crane invented Life Savers in 1912. He manufactured only one flavor of Life Savers: Pep-O-Mint. In 1913, Crane was approached by Edward J. Noble. Noble suggested that offering different flavors of Life Savers would attract more customers. Crane wasn't interested in the concept but agreed to sell the Life Savers business to Noble for $2,900. In his lifetime, Noble went on to develop a billion dollar business manufacturing different flavored Life Savers. By diversifying his product, he appealed to more people and protected his business from the risk of one flavor losing popularity.

Diversification works with investments, too. Spread the risk to help protect your potential rewards!

Big Picture Perspective

January 1, 1985 – Dec. 31, 2022

- **S&P 500** delivered an average annual return of 8.00%.
- **Bonds** (Bloomberg Barclays US Aggregate Bond Index) delivered an average annual return of 3.00%.
- **Stable assets** (90 day T-bills) delivered an average annual return of 0.40%.
- **Inflation** (comprised from the U.S. Labor Department) has averaged 2.74% a year.

Source: Kmotion Research, Callan Institute, https://www.callan.com/periodic-table/.

Past performance does not guarantee future results. This information is for illustrative purposes only and not indicative of the performance of any investment. It does not reflect the impact of taxes, management fees, or sales charges. The Standard and Poor's 500 Index (S&P 500) is a weighted, unmanaged index composed of 500 stocks believed to be a broad indicator of stock price movements. Investors cannot buy or invest directly in market indexes or averages.

3. Understand How the Economy Affects Your Portfolio

The state of the economy (how a country uses money and resources to produce goods and services) greatly affects stock market activity. Whether the economy is growing, shrinking, or standing still, it influences stock performance. To understand the impact of the economy on your portfolio, it helps to see how a few different economic factors affect stock prices.

With a **BULL MARKET**, investor confidence is high and stock prices rise, as most stock holdings will increase in value. With a **BEAR MARKET**, investors are nervous, stock prices decrease, and many stocks are undervalued. This can also be an opportunity to buy a stake in good companies at a discount in their stock price.

When there is **INFLATION**, prices are rising and purchasing power is falling ($1 buys less than it used to). But when inflation spikes too high, people can't afford to buy as much as they could before, and corporations may start to lose sales, causing stock prices to drop. This can create a drop in investment values. When there is **LOW INFLATION**, this can indicate a healthy economy, which can be good for the stock market and stock prices.

When **INTEREST RATES** increase, stock prices tend to decrease; when interest rates drop, stock prices usually rise. In 2022, the Federal Reserve (aka "The Fed", the government entity with the responsibility for implementing interest rate strategies to support the economy) began a series of interest rate increases in an attempt to help offset inflation that resulted from supply chain challenges and price increases related to the COVID-19 pandemic.

4. Seek Professional Help if You Need It

While it's important to understand the basics of investing, you should know that professional help is also available if and when you need it. Your HUB International advisor can give you hands-on personal guidance and advice to help you determine your financial goals and how you can achieve them. Here's how they can help:

- Help you understand different types of investments and their place in a balanced investment portfolio.
- Help you determine your financial goals, such as retirement, buying a home, funding a college education, starting your own business or just getting better at budgeting and paying down credit card debt.
- Help you determine an appropriate investment strategy to achieve your financial goals, based on your risk tolerance and timeframe.
- Discuss professionally managed investment solutions that may be of interest to you.
- Meet with you on a regular basis to track progress and adjust as necessary.

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