

Assignments

Financial Plan Assignments

Continue to work on your Investment Plan. As you do, your challenge now is to begin building your portfolio. When you are starting to invest, you will have only a few assets, but you must still apply the principles of building a successful portfolio regardless of the size of your investment portfolio or the number of assets invested in. How do you apply these principles?

Diversification is critical to building a successful portfolio. Single assets do not add much diversity to your portfolio. Most mutual funds hold multiple assets and may already be diversified. Consider purchasing mutual funds as your first financial assets. What factors make a good mutual fund? What factors are important to you? What are your thoughts on index funds and ETFs (exchange-traded funds)? What tools are available to help you choose candidates for your portfolio?

This chapter gives you the opportunity to choose your financial assets and to develop your investment strategy. To choose your financial assets, read [Using Morningstar to Select Funds](#) (LT07), which explains how to access the Morningstar database and how to set up criteria to select the best mutual funds in your chosen asset classes. If you like, you can look at [Mutual Fund Selection Worksheet](#) (LT7B) which helps with criteria for determining a good mutual fund.

Using these tools, determine which assets you should purchase to give you exposure to your desired asset classes. What are the minimum purchase amounts, management fees, 12b-1 fees (if any), loads (loads are sales charges and are generally not recommended), and other critical areas of the assets you are considering? Select a minimum of four assets you will initially include in your investment portfolio.

The first asset for your portfolio should be for your emergency fund. Choose a liquid, no-load fund that has a low minimum balance requirement yet still yields positive returns. It could be a money market mutual fund, intermediate-term bond fund, Internet bank deposit, or other liquid investment.

Your second asset should be a core mutual fund. Select a fund that is inexpensive, has low turnover, and is tax-efficient. This fund should also offer you exposure to your main equity market. I personally like index funds for core allocations because they are low cost and tax-efficient and generate good returns. I also like the broadest index funds I can get that offer exposure to the total market, i.e., both large and small stocks.

Your third and fourth assets should be funds that broaden and deepen your portfolio. Broaden your portfolio by adding new asset classes to your portfolio: these assets could include international stocks or bonds, emerging market stocks or bonds, and real estate investment trusts (REITs).

To deepen your portfolio, add more companies to your core allocation or your main asset class. You might also include a U.S. small-cap or mid-cap fund or a fund that offers exposure to all the stocks in the U.S. market, such as the Wilshire 5000 index, which includes most of the listed

stocks in the United States.

Once you have determined which assets to include in your portfolio, print off the “Snapshot” page for each of your assets. This page includes information on pricing, size, fees, total return, and return versus benchmarks. These pages will be included in your financial plan.

Then use [Investment Process Spreadsheet](#) (LT13). Open the spreadsheet and determine which tab to use. If you own no financial assets or have only a few in your portfolio (fewer than 10 financial assets), use Tab “Inv. Process (4–10 Assets).” If you have more than 10 assets, use tab “Inv. Process (4–42 Assets).” Assets include stocks, bonds, mutual funds, savings, CDs, and other financial assets.

Add your expected annual salary after you get out of school to cell G11. It will calculate a three-to six-month estimate. Looking at these ranges, type in your emergency fund goal in cell G14. This is the amount you want to save before you begin investing.

Add in your asset classes consistent with your phases in column D in the light-green rows from Section III.B.1. Add the benchmarks in column D from the same section.

Once you have selected a minimum of four assets (one for each asset class), type in the name of the financial assets in the dark-green section.

Finally, type in the percentage allocation in columns F and G, with F being the taxable accounts and G being retirement accounts. The sum of the taxable and retirement accounts should be added to your total allocations as stated in Section III.B.1.

Notice that [Investment Process Spreadsheet](#) (LT13) automatically calculates your initial target portfolio size goal, or your first goal for investing. It takes the amount of your emergency fund and divides this by the percentage you allocate to bonds and cash. For example, if your emergency fund goal were \$20,000 and you allocated 25 percent to bonds and cash, your initial target portfolio size would be \$80,000, or $\$20,000 / .25$. This is just one way of calculating your first goal for investing, but it is a good starting point. Once you achieve this first target portfolio size, you will add an amount to this goal, say \$100,000; type the new amount directly over the formula in cell L12 and begin working on your new targets.