

Assignments

Financial Plan Assignments

Understanding yourself is a critical part of investing. It is important that you understand not only your personal view of investing, but also your family view of investing. Start by taking the simple risk-tolerance test, found in **Learning Tool 16: Risk-Tolerance Test**. The test gives simple recommendations for possible asset-allocation targets (asset-allocation targets will be discussed later). Know how much risk you are willing to take. When you have answered these questions, you are ready to start creating your Investment Plan.

First, copy the sample plan found in **Learning Tool 5A: Investment Plan Example**. Read through this Plan.

Second, complete the introduction to the Investment Plan and add the information on yourself and your spouse if you are married, including your names and ages.

Third, complete the introductions to each of the four sections. In the introduction to Section I, add the different accounts you will use. It is acceptable to include all the listed accounts as you may use many of them during your lifetime. In addition, you must determine two separate time stages for this Investment Plan. Generally, these time stages equate to your time before retirement as Stage 1 and time in retirement as Stage 2. Add this information.

Fourth, after the results of your risk-tolerance test (see **Learning Tool 16: A Risk-Tolerance Test**), fill out the type of investor you are in Section I.B.

Fifth, using your risk-tolerance test results, develop equity targets, bond targets, and other targets for Stages 1 and 2 in Section III.C.1. and III.C.2. Start first with the general rule of thumb of your age in bonds, then use the results of your risk-tolerance test to adjust those allocations. If you have questions, consult the notes for adjustments to the general rule of thumb at the end of **Learning Tool 16: A Risk-Tolerance Test**. Later, you will return to this section to determine your allocations within the stock and bond asset classes.

Optional Reading Assignments

To help you understand what steps you must take before you invest, please read the following articles in the Readings directory of this website:

22. Charles E. Davis, "A Banker's Dozen: Guidelines for Wise Investing," *Ensign*, Sept. 1991, 64.

25. Joe J. Christensen, "Greed, Selfishness, and Overindulgence," *Ensign*, May 1999, 9.

Learning Tools

The following Learning Tools may be helpful to you as you become more financially self-reliant and as you prepare your personal financial plan:

28. Roth versus Traditional: Which Is better?

This spreadsheet gives a simple way of comparing which of the alternatives, a Roth or a Traditional IRA or 401(k) is better for you, based on your assumptions.

23. Return Simulation Spreadsheet

This spreadsheet helps you see the impact of various investment strategies and volatility for different types of asset classes. With selective asset classes, it can also help you to see the historical impact of different asset-allocation decisions.

27. Expected Return Simulation and Benchmarks

This spreadsheet gives a historical perspective on returns and standard deviation (risk) for the major asset classes over the last 1, 5, 10, 25, 50, 75, and 80 years. It also includes some recommended benchmarks for the major asset classes.

Review Materials

Review Questions

1. What is the process of selecting investment vehicles? Why should we learn it?
2. How much can an individual invest in a Roth IRA in 2013 (see Table 1)? In a 401(k)? Are these tax-eliminated or tax-deferred investment vehicles?
3. What are asset classes? What are the three major asset classes?
4. What is the main goal of cash and cash equivalent investments? Fixed income investments? Equities?