



Personal Finance: Another Perspective

Investments 11 - Final Investment Plan Questions & Answers

Updated 2017-03-20



Questions

1. How do I set up an investment account?
2. What is the difference between an ETF and an Index Fund?
3. Where do I find the distributions for a mutual/index/exchange traded fund?
4. Can you have a “sleep-well” portfolio with an actively managed fund?
5. Where do I find current performance data once I leave BYU?



Questions

- 6. Why not just invest in real estate instead of going through all this problem of building and managing a portfolio of assets?



1. How Do I Set Up an Investment Account?

- There are many different ways to set up an investment account
 - You can do this with a mutual fund company, a bank, or other financial services company
 - Remember one key objective is to minimize costs including transactions costs and taxes
 - Generally, I select which no-load mutual funds I want to purchase first, and then go directly to the mutual fund company or brokerage house and purchase the mutual fund shares through them
 - I make sure the mutual fund company is Quicken compatible, i.e., I can use Quicken to update my holdings and track changes



Setting Up an Account (continued)

- There are four parts to setting up an online account:
 - 1. Select your Account Type
 - Is this for retirement or for general investing? If retirement, is it a Roth or traditional IRA, SEP or SIMPLE?
 - If general investing, what kind of securities will you be investing in? (mutual funds, stocks bonds)
 - Once you determine your account type, you will need your social security number, your birth date, email address, and your home address to begin filling out the forms



Setting Up an Account (continued)

- 2. Select your investments
 - Here is where you select from the available mutual funds and other assets from the mutual fund company
 - Make sure you have sufficient funds for the initial investment
 - Check to see if they charge for accounts under a certain dollar amount of assets
 - Make sure you have enough for this minimum purchase amount
 - Select the funds and the dollar amounts



Setting Up an Account (continued)

- 3. Select your funding method
 - How will you get your money to the mutual fund company or brokerage account
 - A. Write a check
 - You can write a check and mail it in
 - B. Electronic bank transfer
 - You can give them your bank account number and your bank routing number, and they can take the money out of your account
 - C. Bank wire
 - You can have your bank wire the funds to the mutual fund company



Setting Up an Account (continued)

- 4. Review and finalize your information
 - Review your information for correctness
 - Electronically sign or print your application
 - Sign up for online access
 - Prepare to connect to the mutual fund company through Quicken to monitor account and individual asset performance



Setting Up an Account (continued)

- Once you have done these things, you are set up (initially). Now:
 - Set up Quicken or other program to track your mutual funds by asset class each week
 - Watch your investment asset allocation to make sure you are within your target percentages
 - If it is not an index fund, make sure you can compare performance versus benchmarks each quarter and each year to make sure the mutual fund managers are adding value (i.e., performing better than the benchmarks after costs and fees)



2. What is the Difference between an Index Fund and an ETF?

- What is the difference between an Index Fund ETF (Exchange Traded Fund) ?
 - An index fund is a mutual fund that tracks an index, commodity or basket of assets
 - Its price is determined only once a day at the end of the trading day, and it can only be purchased or sold once per day
 - An ETF is like an index fund. It tracks an index, commodity or basket of assets
 - However, its price changes every minute throughout the day as ETFs are bought and sold just like an individual share or bond throughout the day



ETF versus Index Funds (continued)

<u>Action</u>	<u>ETF</u>	<u>Index Fund</u>
• Trades like a stock	x	
• Has transaction costs to trade *	x	
• Generally lower management fee	x	
• Potentially more tax efficient	x (due to lower turnover)	
• No front- or back-end loads**	x	x (if no-load)
• No cost to buy and sell (no load)		x
• Trades once a day		x
• Generally slightly higher fees		x
• Generally tracks the index better***		x

Notes: * Some brokerages may trade ETFs without a fee, i.e. Vanguard

** I have seen some index funds with loads. Be careful

*** ETF prices and NAV may be different due to trading



ETF versus Index Funds (continued)

- When would I choose an Index Fund over an ETF (and vice versa)?
 - Index Fund. If you will be putting in a small amount each month into a Fund, the Index Fund is the better way to go due to no transactions costs (an even though the management fee is slightly higher) to buy or sell
 - ETF. If you are investing a specific (and large) amount just once, and will be keeping it in for a long time, the ETF is cheaper, due to lower management fees. You do have transactions costs to get in and out, though



ETF versus Index Funds (continued)

- Are there other differences?
 - An ETF does not sell or redeem individual shares at NAV like a mutual fund.
 - Instead, financial institutions purchase and redeem ETF shares directly from the ETF, but only in large blocks varying in size by ETF from 25,000 to 200,000 shares or “creation units”.
 - Purchases and redemptions of the “creation units” generally are in kind, although some ETFs may require or permit purchasing or redeeming shareholders to substitute cash for some or all of the securities in the basket of assets.



ETF versus Index Funds (continued)

- How is an ETF more tax efficient?
 - Mutual funds are required by law to distribute all excess capital gains and dividends to shareholders which are all taxable, regardless of whether distributions are reinvested in the Fund
 - Since ETFs are not redeemed by shareholders (since they sell their ETFs on the stock market), investors generally only realize capital gains, not dividend distributions.



ETF versus Index Funds (continued)

- How do ETFs handle dividends or distributions?
 - This varies depending on the type of ETFs and their structure
 - Some distribute dividends monthly (fixed income), others quarterly, biannually or annually (equity)
 - Some equity ETFs do not distribute dividends. That may be due to the fact that they invest in securities which do not distribute dividends



3. Where Do I Find Data on Fund Distributions?

- There are a number of places you can find distributions for your mutual fund
 - Mutual Fund Websites
 - Vanguard, Fidelity, American Funds, Schwab, etc. all have their mutual fund prospectus on their websites
 - Most will give you the dates and amounts of their fund distributions



Mutual Fund Distributions (continued)

- Financial Data Providers are other good sources. Realize this is secondary data though—they get it from the mutual fund providers
 - YahooFinance is a good sources. If you go to <http://finance.yahoo.com>, put in your mutual fund ticker, click on Historical Prices, and Dividends Only, and you will get a history of distributions
 - However, it does not tell you which distributions are ordinary, stock, or capital gains distributions
 - We are looking for a better source for this



Mutual Fund Distributions (continued)

- How do I get the distributions?
 - 1. Find the alpha code or ticker for the mutual fund?
 - It is the 4 or 5 digit code that is specific to each mutual fund
 - 2. Access the financial market or mutual fund company website
 - YahooFinance. Finance.Google.com, Vanguard.com, fidelity.com, bloomberg.com etc.
 - 3. Put in the alpha code or ticker
 - Look for the dividends or distributions

-5.59 (-0.26%)



-26.53 (-0.15%)



-34.98 (-0.67%)



[OPEN AN ACCOUNT](#)

[Open An A](#)

Trending Tickers

Amazon, Google earnings on tap; Chipotle's new burger chain; Dow Chemi

Vanguard 500 Index Inv (VFINX)

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Nasdaq - Nasdaq Delayed Price. Currency in USD

197.75 -0.35 (-0.18%)

As of October 26 6:45 PM EDT. Market open.

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How do ETFs and Mutual Funds compare?

▣ Sibling rivalry: ETFs versus mutual funds

▣ 4 tips for choosing between an ETF and a mutual fund

+ Important information



Vanguard

Time Period: [Oct 27, 2015 - Oct 27, 2016](#)

Show: [Dividends Only](#)

Frequency: [Daily](#)

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Currency in USD.

[Download Data](#)

Date	Open	High	Low	Close	Adj Close*	Volume
Sep 12, 2016				0.852 Dividend		
Jun 20, 2016				0.908 Dividend		
Mar 18, 2016				0.962 Dividend		
Dec 18, 2015				1.042 Dividend		



Mutual Fund Distributions (continued)

- Watch for when the Fund makes distributions
 - Try to purchase your Fund *after* they have made a distribution, so you do not have to pay taxes on money you just put into the Fund which was sent out as a distribution
 - With VFINX, they make distributions quarterly, near the end of each quarter. This is better than Funds which make distributions once per year
 - Distributions are small, less than 1%, so timing purchases for this Fund is not that important
 - As a rule of thumb, I generally try purchase the shares after distributions are made and not too close to the next distribution date



4. Can You Have an Actively Managed Fund in a Sleep-well Portfolio?

- The key to adding actively managed funds in a sleep-well portfolio is you!
 - 1. Do you think the Fund and manager will continue to outperform the benchmark over time?
 - 2. Do you think the Fund and manager be around for the next 5-20 years?
 - 3. Do you think the Fund will continue to offer the benefits for which you bought it in the first place, i.e., good performance, positive tracking error, low cost, good manager tenure, tax efficiency, low un-invested cash, no style drift, etc.
 - 4. Are you are willing to watch Fund performance versus benchmarks?



Actively Managed versus Index Fund?

- If you think the Fund and manager will continue to outperform over the long term, you can include it in your portfolio
 - However, watch performance carefully
 - However, if it does begin to underperform versus the benchmarks over a 24-36 month period, be willing to admit mistakes and do what is necessary for your portfolio's well being—sell it out and buy another fund that will at least match the index (i.e., possible an index fund)



5. Where do I find Performance Numbers for Mutual Funds and Stocks and Bonds?

- Performance numbers can be found a number of places, particularly online and in paper publications
 - 1. Mutual Fund Performance Benchmarks
 - I generally like to get a Wall Street Journal for the first day after the end of the month or quarter
 - They will give performance by Lipper Category which will show how the average fund in that asset class performed
 - Large cap blend, value and growth
 - Small cap blend, value and growth
 - Short-term bond, long-term bond
 - International, Emerging Markets, Real Estate, Commodity, Sector funds, etc

a. Mutual Fund Benchmarks (Lipper)

Mutual Fund Yardsticks: How Fund Categories Stack Up

Data provided by LIPPER 

All returns are for periods ended February 29. Fund-category abbreviations used in performance tables appear in parentheses after category name. Fixed-Income performance numbers are preliminary.

Investment objective	PERFORMANCE (%)				Investment objective	PERFORMANCE (%)			
	February	YTD	1-yr	5-yr**		February	YTD	1-yr	5-yr**
Diversified stock & stock/bond funds					World stock funds				
Large-Cap Core (LC)	4.3	9.4	3.2	1.0	Global (GL)	4.8	11.0	-2.1	-0.1
Large-Cap Growth (LG)	5.5	12.2	4.8	3.3	International (IL)	5.3	11.8	-7.1	-2.3
Large-Cap Value (LV)	4.2	9.0	0.7	-0.9	European Region (EU)	6.7	12.8	-7.3	-3.0
Midcap Core (MC)	4.1	10.7	0.8	2.5	Emerging Markets (EM)	5.9	16.6	-3.1	3.5
Midcap Growth (MG)	5.1	12.5	1.7	4.0	Latin American (LT)	5.4	18.2	-2.0	7.5
Midcap Value (MV)	4.2	10.3	-0.4	0.8	Pacific Region (PR)	5.3	13.9	-5.3	1.9
Small-Cap Core (SC)	2.9	9.7	0.6	2.1	Gold Oriented (AU)	-1.3	10.5	-10.1	10.0
Small-Cap Growth (SG)	4.4	11.7	2.0	3.3	Taxable-bond funds				
Small-Cap Value (SV)	2.7	9.9	-1.0	1.5	Short-Term (SB)	0.3	1.1	2.6	3.5
Multicap Core (XC)	4.3	10.0	1.4	1.0	Long-Term (AB)	0.7	2.6	8.6	6.3
Multicap Growth (XG)	5.3	12.2	3.0	3.3	Intermediate Bond (IB)	0.4	1.9	7.3	5.6
Multicap Value (XV)	4.3	9.7	0.2	-0.5	Intermediate U.S. (IG)	-0.2	1.6	10.7	6.2
Equity Income (EI)	3.4	6.6	4.5	1.6	Short-Term U.S. (SU)	0.4	1.9	7.3	5.6
S&P 500 Funds (SP)	4.3	8.9	4.5	1.0	Long-Term U.S. (LU)	-0.6	-0.3	10.7	6.0
Specialty Divers. Equity (SQ)	1.1	3.4	-1.0	1.3	General U.S. Taxable (GT)	0.6	2.2	8.7	5.6
Balanced (BL)	2.8	6.7	3.1	2.6	High-Yield Taxable (HC)	2.2	5.4	4.8	5.7
Stock/Bond Blend (MP)	2.7	6.6	1.9	2.2	Mortgage (MT)	0.2	0.7	6.2	5.6
Avg. U.S. Stock Fund†	4.0	9.7	1.3	1.2	World Bond (WB)	1.4	4.7	5.6	6.1
Sector stock funds					Avg. Taxable-Bond Fund**	0.7	2.4	5.8	5.0
Science & Technology (TK)	5.8	13.5	-1.2	4.0	Municipal-bond funds				
Telecommunication	4.3	6.2	-3.6	-1.5	Short-Term Muni (SM)	-0.01	0.3	2.0	3.4
Health/Biotechnology (HB)	2.1	9.4	14.1	6.4	Intermediate Muni (IM)	-0.03	1.8	9.6	4.6
Utility (UT)	2.1	0.8	4.7	1.4	General Muni (GM)	0.2	3.3	13.7	4.2
Natural Resources (NR)	4.3	8.2	-5.4	4.2	Single-State Muni (SS)	0.1	2.8	12.4	4.2
Sector (SE)	1.1	6.4	1.5	-3.4	High-Yield Muni (HM)	0.8	4.5	15.5	2.2
Real Estate	-0.8	5.4	5.5	-1.9	Insured Muni (NM)	-0.1	2.9	13.4	5.0



b. Stock and Bond Benchmarks

- Stock and Bond Benchmark performance
 - I also like the WSJ
 - They give the performance of major stock and bond benchmarks
 - S&P 500 Index (large cap)
 - Russell 2000 (small cap)
 - MSCI EAFE (international)
 - MSCI Emerging Markets Free (Ems)
 - Barclay's Aggregate (Bonds)
 - Barclay's Muni (municipal bonds)
 - B of A High Yield (junk bonds)

Stock and Bond Benchmarks (continued)

Stock & Bond Benchmark Indexes All total return unless noted

Investment objective	PERFORMANCE (%)			
	February	YTD	1-yr	5-yr**
Large-cap stocks				
DJIA	2.9	6.6	8.8	3.9
S&P 500	4.3	9.0	5.1	1.6
Midcap stocks				
S&P MidCap 400	4.5	11.4	2.6	4.7
Small-cap stocks				
Russell 2000	2.4	9.6	-0.2	1.8
Broad stock market				
DJ U.S. Total Stock Market	4.3	9.5	4.5	2.0
Russell 3000	4.2	9.5	4.4	1.8

Investment objective	PERFORMANCE (%)			
	February	YTD	1-yr	5-yr**
Stock indexes				
DJ U.S. TSM Growth	4.8	12.4	5.5	4.5
DJ U.S. TSM Value	3.7	6.8	3.7	-0.4
Taxable bonds				
Barclays Agg. Bond	-0.02	0.9	8.4	6.4
Municipal bonds				
Barclays Muni. Bond	0.1	2.4	12.4	5.5
International stocks				
MSCI EAFE†† (price return)	5.4	11.0	-10.4	-5.7
Dow Jones World (ex. U.S.)	5.6	13.2	-6.0	-0.7

*Annualized †Diversified funds only **Excludes money-market funds ††Europe, Australia, Far East



6. Why Not Just Invest in Real Estate?

- A student wrote:
 - During the crash of 2007-2008 (ish) I saw many portfolios reduced by 70% in value almost overnight. How can we safely and reliably invest when past data may not reliably predict future performance? Why not invest in something real estate or something else "real". Yes, real estate can crash too, but it will never go to \$0 like many other investments.



Real Estate (continued)

- Let's first ask a few questions and then I will make comments:
 - Question 1. Those who lost 70% were in what asset class? I know of no asset class that dropped by 70% in 2008. They were likely investing in individual assets and were not diversified
 - Question 2. If the investors were close to retirement, did they have a smaller allocation to stocks as they were older, and had more invested in bonds? Bonds did better than stocks in 2008 so they should have done better performance-wise. It sounds like they were not investing at a proper risk level and again were not diversified



Real Estate (continued)

- Question 3. What diversified mutual fund dropped to zero in 2008 (where every stock declined to zero)? Diversified portfolios are the same as with real estate, there will be value there. Think through principles, not just what you have heard or read. Be careful of the hype—someone is pitching real estate to you and you have taken the bait
- Question 4. How do you define “real” assets? If real assets only real estate, then what about currencies, precious metals and agriculture? If this is your definition and all you will invest in, you will have a very undiversified and risky portfolio. I believe your diversified portfolio should include “real” as well as “financial” assets



Real Estate (continued)

- Question 5. You asked: “How can we safely and reliably invest when past data may not reliably predict future performance?”
 - That statement works for real estate as well. Lets not be too blatantly biased about other asset classes.
 - Contrary to popular belief, real estate does not always go up as we have learned in the last few years.
 - A great friend from GFA reminds me “there is a season for every asset class, but not an asset class for every season.” And that includes real estate



Real Estate (continued)

- To be successful in investing:
 - Follow the principles of successful investing and your personal financial plan
 - Work on the things you can control: 1. How much you save each month, 2. How long you keep it invested, 3. Your risk level (i.e., your asset allocation), 4. The taxes you pay, and 5. The costs you pay. We do this within our Investment Plan.
 - The thing we cannot control, investment returns, we either do not worry about or we index
 - Finally, don't use leverage to invest (and this includes real estate)