5 Investments

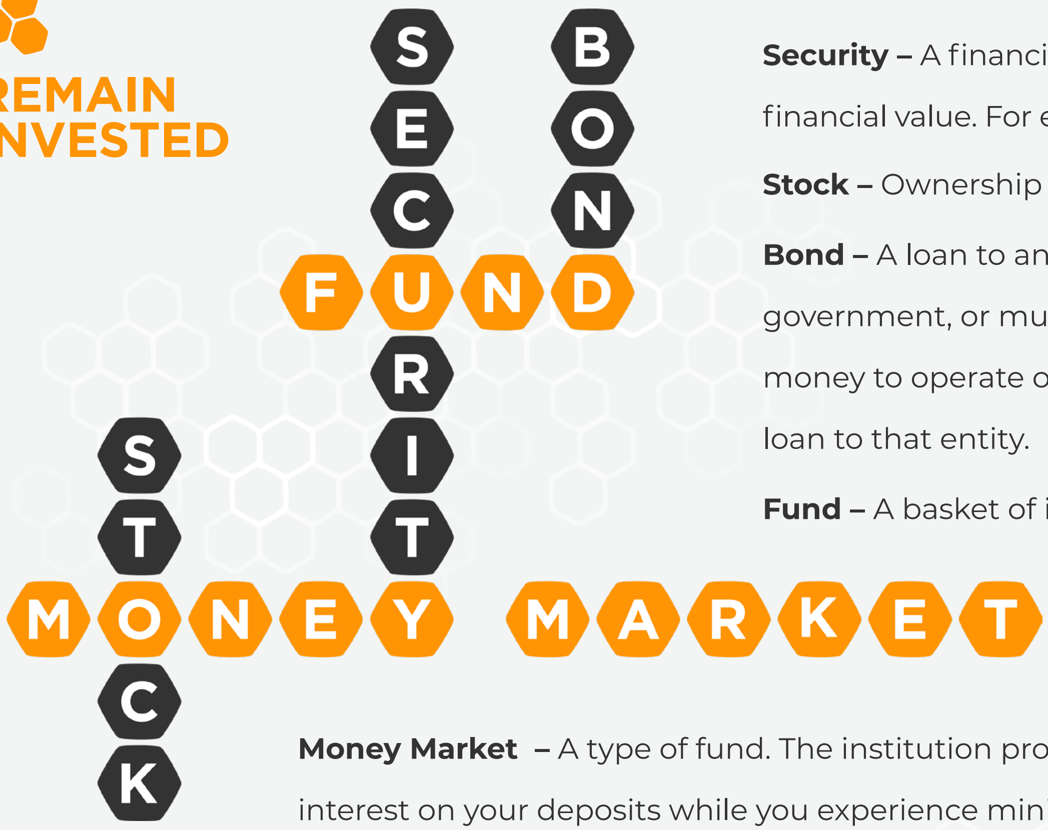
The greatest portfolio impact comes from investing...period. Choosing to invest-or in a retiree's case, to remain invested-is the most important investment decision you will make. This article will help you feel more confident in your portfolio and less intimidated as you talk to investment professionals.

The only way to build confidence is to understand basic investment vocabulary. We'll first review terminology. Second, we'll discuss two important investment concepts. Lastly, we'll cover Capita's investment philosophy.

Terminology

BASIC TERMINOLOGY

REMAIN INVESTED



Security – A financial instrument with financial value. For example: a stock or bond.

Stock – Ownership in a company.

Bond – A loan to an entity. A business, government, or municipality may borrow money to operate or grow. A bond is a loan to that entity.

Fund – A basket of individual investments.

Money Market – A type of fund. The institution promises to pay you interest on your deposits while you experience minimal change in the value of your investment.

FUND TERMINOLOGY

MUTUAL FUND VS. ETF

Mutual Funds - When you invest in a mutual fund, you give your money to the sponsor and the sponsor creates new shares for you.

Exchange Traded Funds (ETFs) - When you buy an ETF, you place an order on an exchange and buy existing fund shares from another investor. This can make ETFs more tax efficient because the ETF sponsor doesn't have to buy and sell the underlying investments when individuals want to buy and sell the fund.

ACTIVE VS. PASSIVE

Active Approach - Active managers do research to decide which are the best investments. Most mutual funds are active.

Passive Approach - Passive managers copy an index like the S&P 500 and save money by not paying for extensive research teams. Passive funds pass the cost savings to the investor through lower fund fees. Most ETFs are passive.

STRATEGIC VS. TACTICAL

Strategic Approach - Sticking to your allocation with regular rebalancing and minor adjustments.

Tactical Approach - Making larger adjustments based on external factors like market timing, pricing, or risk.

	MUTUAL FUND	EXCHANGE TRADED FUND
ACTIVE	- Research-Based Investment Selection - Buy & Sell from Sponsor - Higher expense	- Research-Based Investment Selection - Buy & Sell on Exchanges - Higher expense
PASSIVE	- Investments Copy an Index - Buy & Sell from Sponsor - Lower Expense	- Investments Copy an Index - Buy & Sell on Exchanges - Lower Expense.

INVESTMENT COST TERMINOLOGY

Expense Ratio – The fee a fund charges to operate. The cost is deducted from the fund price. You will not get an invoice or see this fee, but it will affect the performance of your investment.

Load – A fee paid to the broker who sold you a mutual fund. The most common is a front-end fee of 3%-6%. Mutual funds have classes of shares. If you see "A Shares" you're paying a front-end load. Front-end loads, immediately reduce the value of your investment. A $100,000 investment in a class A fund with a 5% load will start at $95,000. "C Shares" charge an annual load.

Commission (investment) – There are some investments that pay a commission to the broker even if it is not labeled as a loaded fund. This is how typical brokers used to make a living. They charged commissions on buying and selling stocks. Some real estate investment trusts (REITs) and privately held investments labeled as "alternatives" pay a commission to a broker as well.

Commission (insurance) – Insurance agents are paid a commission for setting up a policy for you. This may include life insurance policies, annuities, long term care, or health insurance.

Advisory Fee – A registered investment advisor may charge you a fee for investment management and/or advice. Most often this is a percentage of assets the advisor is managing. Some advisors charge flat amounts for specific advice or services. Some advisors do both.

DIVERSIFICATION

Diversification is your protection against isolated problems. Examples could include business mistakes made by a CEO or external factors like interest rate changes or oil price wars. If one company goes bankrupt in a diversified portfolio, the damage is often minimal and potentially undetected by most investors. More importantly, that bankruptcy doesn't derail your retirement plan. You can diversify across companies, industries, sizes of businesses, and many other ways.

Diversification is a good thing, but more is not always better. Imagine you are paying higher costs, called expense ratios, for active management, but your "active" manager is so diversified they perform just like the index. You could have purchased the index investments for a small fraction of the cost of an active manager. This is called "closet indexing", and it is a problem. To be clear, there is no better way to get low-cost diversified exposure to markets than through an index fund. The problem is when you accidentally pay for active management, but you get masked passive management.

RISK

We fear what we don't understand. There are three risk concepts to understand:

- **How your investment makes money – For example: your stocks are businesses. They sell computer parts, clothes, vehicles, materials, or services. If a business increases its profits by 10%, over time the stock should also go up by 10%. Therefore, ownership of assets, like real estate and stocks, is a long-term investment.**
- **Risk avoidance is just risk trading – Avoiding market risk usually increases inflation risk. Making large portfolio allocation changes introduces market timing risk as well.**
- **Investments come in different risk categories – You can influence your portfolio risk by influencing your investment categories.**

CAPITA

Capita's Investment Philosophy

- **Use passive index ETF funds to build your core asset allocation.**
- **When you choose active investments, use individual securities, don't trade too frequently, avoid closet indexing, and seek investments of higher quality.**
- **Reduce expense ratios to as close to zero as possible.**
- **Take a strategic approach with minimal tactical decisions. Customize your portfolio to match your capacity and tolerance for risk.**
- **Limit risks to those you understand and can roughly calculate.**
- **Build portfolios with predictable outcomes.**
- **You are investing to meet a life goal. Don't let performance comparisons derail you from what is important.**

Don't Be Overwhelmed

Don't be intimidated by the terms. If you understand this article, you are ahead of most investors. If you don't understand it, read it again or call us to talk.

CAPITA
FINANCIAL NETWORK

If You'd Like To Learn More Reach Out To Us Today

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