Learn the Lingo of Investing

Investment Vehicles:

- Stock: an ownership certificate aka a share in a company that pays you a dividend when the company is profitable. (higher risk).
- Bond: a debt security aka a loan to a company that pays you interest as the company repays the loan by a specified date. The higher the coupon or interest rate, the higher the risk. (lower risk than stock)
- Mutual Fund: an actively-managed (aka professionally-managed) mix of numerous stocks and bonds, which makes them diversified (lower risk than individual stocks and bonds).
- Exchange Traded Fund (ETF): a passively-managed (aka self-managed) fund that tracks an index, a commodity, bonds, or a basket of assets like an index fund. It is more versatile than an index fund because it can be designed to track almost any index or asset class. It also has diversification similar to a mutual fund. But unlike a mutual fund, an ETF trades like a common stock on a stock exchange; when buying or selling ETFS you will pay brokerage commissions/fees.
- Index Fund: a passively-managed (aka self-managed) fund that follows preset rules, such as tracking prominent indexes like the S&P 500 or the Dow Jones Industrial Average; may also have rules that screen for social and sustainable criteria; can buy or sell index funds without incurring any transaction costs.

Retirement Vehicles:

- 401(k): employer-sponsored, tax-advantaged plan; ask about matching
- 403(b): non-profit employer-sponsored, tax-advantaged plan; ask about matching
- IRA: employer/individual-sponsored, tax-advantaged plan, (tax-free now & withdrawn taxed in retirement)
- Roth IRA: employer/individual-sponsored, tax-advantaged plan (taxed now & withdrawn tax-free in retirement)
- SEP IRA (Simplified Employee Pension): A traditional IRA for self-employed folks

Know the Expense-Ratio

The Expense-Ratio is the fee you are charged for managing the fund's assets; listed as a percentage and represents the percent of your investment that you are charged for investing in the fund.

- Average for Mutual Funds: 0.5% - 1.5%
- Average for Exchange-Traded Funds: 0.44%
- Average for Index Funds: 0.25%

This calculator shows you how the expense-ratio can affect your returns over time: https://www.begintoinvest.com/expense-ratio-calculator/

Fees - How Is Your Advisor Paid?

There are two main categories of fees: **operating expenses** (paying the fund managers, administrative fees, and sales & marketing fees), which are expressed as an expense ratio, which ranges from 0.2% to 2.0%; and **sales commissions**, which are charged upon buying or selling.

- Annual Fee: if your annual returns are less than this fee, you're losing money.
- Front-end fee (load): advisor takes commission right off the top. A $100,000 investment with a (whopping but not atypical) 5 percent load means you pay $5,000 off the top.
- Back-end load: The advisor's commission is paid by her/his financial services company, not you. But in exchange you agree to not move your money for several years or pay a substantial penalty if you do.
- Trailing fee: the advisor receives a commission on the sale for as long as you hold the investment. This is often around 0.5 percent, and it comes out of your investment year in and year out, regardless of whether it performs well or falls in value. If you stop to think about this, it obviously adds up
- Fee-only: an advisor who works on a fee-only basis means the advisor is paid by you—and only by you. Some options:
  - Percentage of assets under management: This is an annual fee based on the amount of assets you are seeking advice on. The percent can range from as little as 0.15 percent for some of the online advisory services to 2 percent. (By the way, we think 2 percent is way too high a price to pay for financial advice.) Many advisors charge a sliding scale, with the percentage charged falling as the amount gets greater—for example, 1 percent charged for the first $500,000 and then 0.5 percent on the rest of the sum.
  - Flat rate: one rate for a package of agreed-upon services
  - Hourly rate $250 to $500 an hour for someone with a certified financial planner credential.

Does My Advisor Work to the Fiduciary Standard?

Fiduciary: (definition) a person or organization that owes to another the duties of good faith and trust; ethically bound to act in the other's best interests.

To find the right investment advisor, find someone who works to the "fiduciary standard" (meaning they work to your benefit at all times, not theirs). How do you make certain someone is a fiduciary? There are two ways to find out:

Ask the advisor directly.

This takes a little courage, but it's 100% your right to ask and their answer is important. If a financial advisor attempts to make you feel uncomfortable for asking, you should not be working with her or him. Ask quite specifically: **"Do you work to the fiduciary standard at all times?"** This last part, "at all times," is important. Even though CFPs are supposed to adhere to the fiduciary standard, there is a little loophole whereby they don't need to act as fiduciaries if they are simply selling financial products and not offering planning services. You can also ask any adviser to sign an oath stating they will act as fiduciaries, like the one put together by the advocacy group the Committee for the Fiduciary Standard (http://www.thefiduciarystandard.org/wp-content/uploads/2015/02/fiduciaryoath_individual.pdf) as a requirement for working with you.

Check their credentials and disciplinary history.

There are 3 good identifiers to indicate they are a Fiduciary Standard Financial Advisor

- They are a Certified Financial Planner (CFP) - look them up on http://www.cfp.net
- They are a Registered Investment Advisor (RIA)
- They are a fee-only advisor: National Association of Personal Financial Advisors (NAPFA) - look them up on http://www.napfa.org

You can also check their history using:

- The Financial Industry Regulatory Authority (FINRA)'s Broker Check: https://brokercheck.finra.org/.
- The CFP Board maintains disciplinary records on its members: https://www.cfp.net/about-cfp-board/ethics-enforcement/disciplined-individuals-by-state.
- State regulatory authorities also maintain databases: https://www.finra.org/investors/state-securities-regulators

Typically you only choose a few investment advisors / financial planners in your life, and in my experience it's all decided by how well they are performing and on how comfortable you feel with them, at all times. (There's that phrase again) You *always* get to replace them if they're not working for you. So checking them out in a few places (as well as asking around about them) is a great strategy!