

# Stock Market 101 Toolkit

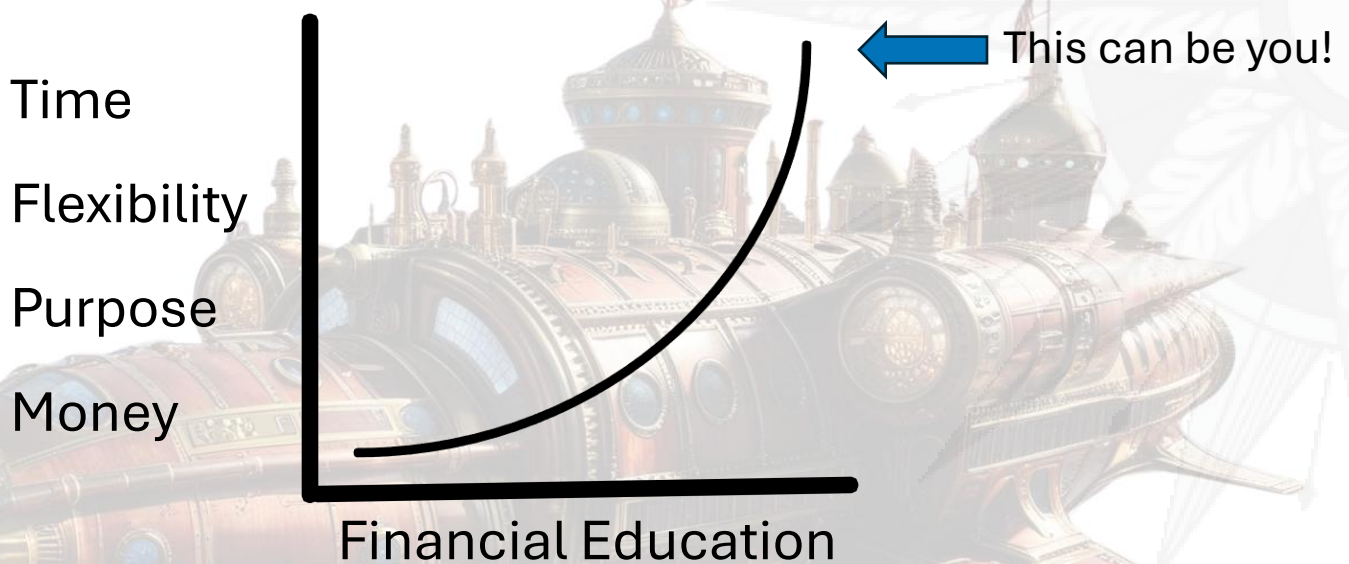
## The Foundations of Wealth Accumulation

**Welcome, fellow brave adventurer!**

**Are you ready to embark on the adventure of a lifetime?**

Get ready to transform everything through the power of personal finance!

With just a few basic skills and a solid knowledge base, you can dramatically change your future through discipline, a dose of courage, and the phenomenon of compound growth!



Once you break through the “atmosphere” of average investor thinking, you open the door to success far exceeding the vast majority.

Time to reach escape velocity!

## Here's the Toolkit Overview.

Welcome to your Stock Market 101 Toolkit! Whether you're just starting your investment journey or looking to sharpen your approach, this guide is designed to help you build a solid foundation for success.

### What You'll Accomplish:

- **Set and prioritize financial goals**
- **Estimate how much you'll need in the future**
- **Understand your risk tolerance**
- **Choose the appropriate investment account**
- **Create a personalized investment strategy**
- **Automate your savings for consistent progress**
- **Manage risk effectively**
- **Develop the investor's mindset**
- **Learn essential stock market terms**

To help get you started, see the next page to learn the path which The Wealth Expedition follows.

*\*Disclaimer: This content is provided for educational purposes only and does not constitute financial, investment or legal advice. Investment decisions should be made based on each individual's unique financial situation, goals and risk tolerance.*

# The Path

Budgeting

Debt Elimination

Increasing Income

Investing for Retirement

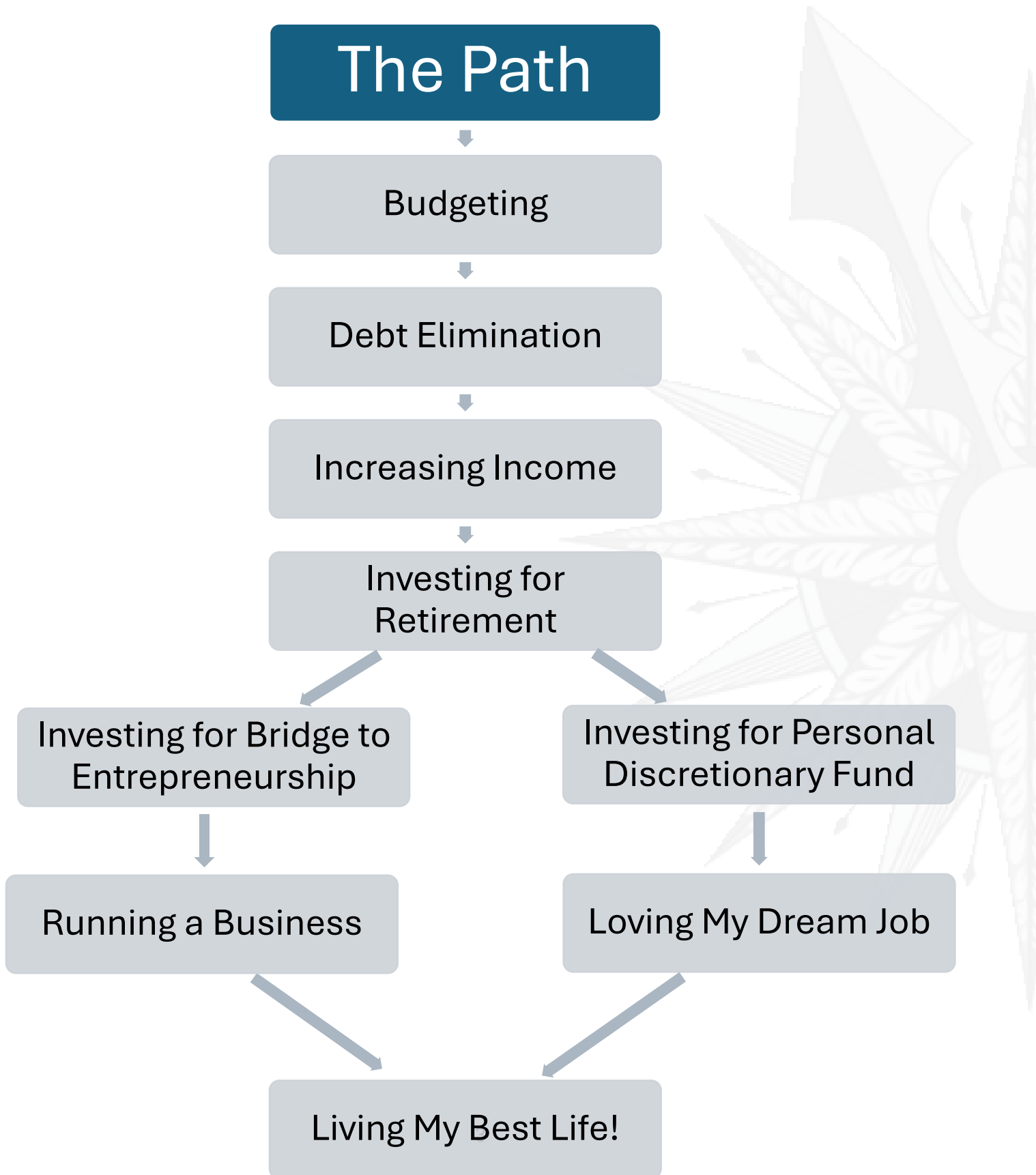
Investing for Bridge to Entrepreneurship

Investing for Personal Discretionary Fund

Running a Business

Loving My Dream Job

Living My Best Life!



Of course, this is more of a guide than a rulebook.

Some may re-order these steps, eliminate some steps, or add other steps.

But if you're just getting started on your journey, this is the path by which you can visualize where you're heading and how to get there!

**So let's get started.**

## **Step 1: Set Your Financial Goals**

My 3 Big Goals:

Short-term (1-3 years)

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Medium-term (3-10 years)

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Long-term (10+ years)

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Feel free to use any of the steps listed in the path of the Wealth Expedition. Or come up with your own!

What does financial independence look like for you? For example, are you looking to branch into entrepreneurship? Maybe improve an existing business? Land a dream job? Achieve a flexible lifestyle? Retire?

Write a few sentences below that define it.

### **SMART Goal:**

Convert *one* of your goals into a SMART goal (specific, measurable, achievable, relevant, time-bound).

Specific goal:

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The exact details of what success looks like:

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The end date for achievement:

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## Step 2: Calculate Your Future Needs (Based on the Goal!)

Goal amount: \_\_\_\_\_

Years until goal: \_\_\_\_\_

Expected annual inflation rate: \_\_\_\_\_

Use a [financial calculator](#) to perform this calculation:

N – Number of years until goal): \_\_\_\_\_

I/Y – Expected annual inflation rate: \_\_\_\_\_

PV – Goal amount\*: \_\_\_\_\_

PMT – Periodic Payment (for now, zero) \_\_\_\_\_

\*Include a (-) negative sign in front of the goal amount. This will make the FV calculate a positive number.

Then hit “Calculate” to find FV (future value).

**Required future value for goal:** \_\_\_\_\_

## Step 3: Assess Your Risk Tolerance

What is the goal for your money?

- A. To be as safe as possible, even if it means losing purchasing power over time.
- B. To keep pace with inflation.
- C. To stay slightly ahead of inflation.
- D. To make equity-like returns on average over many years.

How flexible is this plan?

- A. Very Inflexible: I absolutely must achieve the timeline that I'm targeting.
- B. Somewhat Inflexible: I strongly prefer to achieve the timeline I'm targeting.
- C. Somewhat Flexible: It's no big deal if I have to work a bit longer to achieve this timeline.
- D. Very Flexible: The timeline is just a number. I'm perfectly happy to push the date further into the future if it means I can take on extra risk in the portfolio.

After three years of investing an initial \$100,000, which portfolio would you prefer? *(These are estimates and approximations)*

- A. Portfolio A: Somewhere between \$100,000 and \$110,000.
- B. Portfolio B: Somewhere between \$90,000 and \$120,000.
- C. Portfolio C: Somewhere between \$80,000 and \$150,000.
- D. Portfolio D: Somewhere between \$70,000 and \$180,000.

Bear markets define a time when markets drop 20% or more from their high point. How would you feel if \$100,000 dropped to \$75,000 within the year?

- A. I would be extremely concerned and would sell most or all of my investments to keep my money safe.
- B. I would be concerned and sell or change part of my strategy to mitigate downside risk.
- C. I would feel nervous, but would stay the course and wait it out.
- D. I'd be excited that stocks are on sale and buy more!

**Score your results:**

A = 1 B=2 C=3 D=4

Add the numbers together. For example, if you have two D's, one C and one B, then the score would be  $4 + 4 + 3 + 2 = 13$ .

**Final Score** \_\_\_\_\_

If you scored\*:

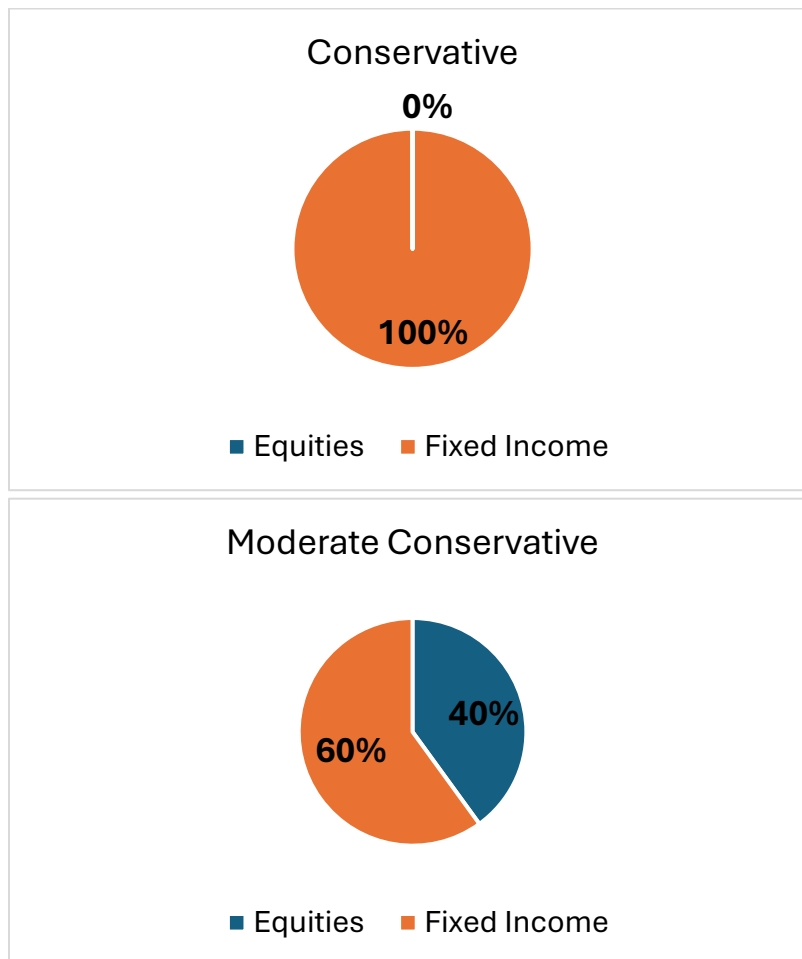
- |        |                       |
|--------|-----------------------|
| 4-5:   | Conservative          |
| 6-8:   | Moderate Conservative |
| 9-11:  | Moderate              |
| 12-14: | Moderate Aggressive   |
| 15-16: | Aggressive            |

*\*Keep in mind, this is a very rough guideline based on the limitations of a simple questionnaire. It is not financial advice. But it can help you gauge how much risk might be appropriate for your goals.*

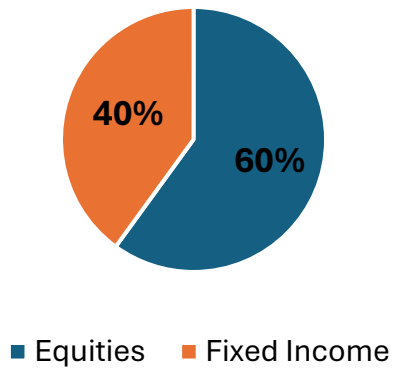


The following two pages show a rough diagram of how each type of investor might be allocated between equities and fixed income.

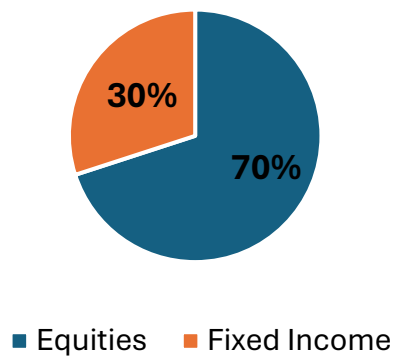
Take note that alternatives could also be included as 10% or less of the pie as part of the equities portion.



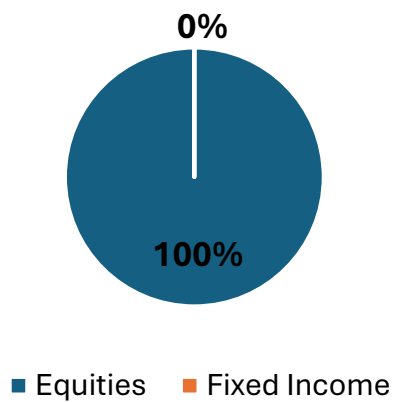
Moderate



Moderate Aggressive



Aggressive



## Step 4: Choose the Proper Account

Think of investment accounts as having three main categories:

- **Tax-free** (e.g. Roth IRA, Roth 401k, Roth 403b, Health Savings Accounts and 529 Plans)
- **Tax-deferred** (e.g. Traditional IRA, 401k, 403b and annuity accounts)
- **Taxable** (e.g. individual, joint and trust accounts)

If you're saving for retirement or future education, tax-free or tax-deferred plans can offer a major advantage.

If you're saving for a short- or mid-term goal (and you're not already age 59 ½), then using a taxable account may be the more flexible and appropriate option.

## Step 5: Allocate and Diversify

An investment portfolio can potentially hold the following broad categories of assets:



**What you need to know:**

**US stocks and international stocks trade off leadership.** For long-term investors especially, it's important not to become subject to "home bias," in which someone only invests in their home country.

The US makes up about 26% of the global economy as measured by Gross Domestic Product (GDP).

In the MSCI World Index (which tracks major developed nations), the US makes up about 72%.

So for the stock allocation, while it's fine to have a majority in US stocks (many US companies do business globally anyway), dedicating ~20%-30% to international stock can provide important diversification.

**Corporate bonds are riskier than government bonds, but they generally offer higher long-term returns.** Corporate bonds can be further categorized as investment-grade and high-yield.

Bottom line: If you're looking for good diversification, limiting exposure to high-yield (junk bonds) in your bond allocation is important. Investment grade corporate bonds, so long as you're diversified among several, can offer great diversification and risk reduction as part of the total portfolio.

And government bonds (in the US, that would be Treasuries) offer lower return in exchange for the greater reliability of the government to make good on their payments (through taxes and borrowing).

**Alternatives can include any number of other investment types: options, future, real estate, commodities, currencies, cryptocurrencies, precious metals, etc.** This type of investment generally tends to exhibit a lower risk-reward ratio (not always, but often) but can offer beneficial diversification as part of a total portfolio. Generally alternatives are best kept to 10% or less of the total (potentially replacing part of the equity portion).

**Cash is important when a goal becomes ultra short-term (within the year), an upcoming fee will be charged to the account, or in rare circumstances when awaiting a certain market environment in order to buy in.** Generally, cash should be limited in an investment portfolio unless one of those three reasons apply.

**Diversification Tip:** Using broad index funds and/or Exchange Traded Funds (ETFs) allow investors to gain exposure to multiple sectors with low fees.

## Step 6: Automate Your Savings

Pay yourself first!

One the simplest ways to become an *automatic millionaire* is to save first, and spend what's left.

The key is to get started. The amount doesn't matter so much as the philosophy.

Taking your number calculated above (the Required Future Value for your Goal), plug it into this equation using the same [financial calculator](#). Be sure to change it to the "PMT" tab.

N – Number of years until goal: \_\_\_\_\_

I/Y – Estimated annual average growth: \_\_\_\_\_

FV – Goal amount: \_\_\_\_\_

PV – Existing savings toward goal\*: \_\_\_\_\_

\*Include a (-) negative sign in front of the existing savings. This will make the PMT calculate a positive number.

Then hit "Calculate" to find PMT (annual amount to be invested).

**Estimate of annual amount to be invested:** \_\_\_\_\_

If you plan to invest:

Monthly – Divide this number by 12

Bi-Monthly – Divide this number by 24

Bi-Weekly – Divide this number by 26

### **Can You Generate A 30% Surplus?**

I encourage a budgeting overhaul that involves cutting expenses by 15% and raising income by 15%, creating a 30% cash flow surplus. This fast tracks your savings and opens the door to innumerable possibilities. I show the details of how this can be done in the course on [Budgeting](#).

But regardless of the number, set up an automatic bank transfer that happens regularly, immediately following payday, so that it's deposited into your investment account of choice.

Be sure to also set up an automatic “buy” into whatever strategy you're using with the portfolio, so that the money gets invested and doesn't remain sitting in cash.



## Step 7: Manage Risk the Right Way

*Time in the market is far more important than timing the market!*

That's what I've told my clients for years.

Timing the market should be a rare occurrence and is not for everyone. But appropriate ongoing risk management definitely can weight the odds in your favor toward achieving whatever goal, over whatever time period, you have set.

Your asset allocation is the number one  
risk management action that you can take.

Aside from this, there are other ways to reduce risk in a portfolio, such as:

- Maintaining higher levels of cash
- Increasing bond-to-equity ratio
- For equity allocation, using a more equal-weighted, large-cap index portfolio for diversification
- Using an equity-linked CD
- For retirement, using variable, fixed or indexed annuities
- Buying a protective [\*put option\*](#)
- Establishing a vertical put debit spread
- Establishing an option collar
- Using a [\*buffered ETF\*](#) (typically held for ~12 months)

This is by no means a comprehensive list, by the way.

When would any of these be used?

That's where financial education is a must-have. Each does its own thing for its own purposes. And one size definitely doesn't fit all.

**For example, options involve significant risk and are not suitable for all investors. Before engaging in options trading, individuals should fully understand the risks involved and consider speaking with a qualified financial professional.**

The reason there is so much nuance is that it's all about  
balancing one risk with the other:

The risk of market downside

Versus

The risk of not achieving your goals with enough upside

Staying up-to-date with the regular newsletters and podcast can help you micro-learn your way to becoming more knowledgeable in how to use these different risk management techniques.

I also dive into much greater detail in the course on [Investing](#).

## Step 8: Achieve the Investor's Mindset

Investing is not all about money.

It's about time and effort as well.

In your years as a student, and even during early career, you can dramatically accelerate your own wealth journey by investing *time and effort* into:

- Experimenting with different job roles
- Discovering your personal strengths and passions (e.g. personality tests)
- Developing your education through courses, classes and job shadowing
- Earning credentials or certificates that help substitute any lack of experience
- Tracking wins in detail that can be used as selling points for future employers
- Building a social network and potential audience

In the beginning, this type of investing is far more likely to bring material results that can be life-changing. As you earn from the results of these early actions, the monetary investing can begin to outpace the time and effort investing.

Once you build up enough of an investment cushion, you can then make the all-important decision:

- Do you want to give yourself a personal raise by using your investments as a sort of discretionary fund (think big vacations, sabbaticals, or overall lifestyle improvement)?
- Or do you want to begin converting those stock market investments into investments in your own personal business through entrepreneurship?

Either of these choices gives you a tremendous opportunity to radically change the way you live life.

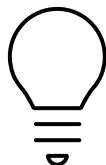
And in the end, you can achieve the full wealth picture:



**TIME**



**FLEXIBILITY**



**PURPOSE**



**MONEY**

**Welcome to The Wealth Expedition!**

## GLOSSARY

### Important Terms to Know Going Forward

<u>Term</u>	<u>Definition</u>
Stock	Ownership share in a company
Bond	A loan to a company/government with fixed interest
Mutual Fund	A managed fund that holds multiple assets and trades at end of day.
ETF	A managed fund that holds multiple assets and trades like a stock.
Index Fund	Mutual fund or ETF designed to replicate returns of a market index
Diversification	Spreading investments across low-correlation assets to reduce risk
Asset Allocation	How an investment portfolio is diversified among stocks, bonds, etc.
Risk Tolerance	Your personal willingness and ability to endure fluctuations in value
Volatility	How much and how quickly an investment's price changes
Bull Market	A period when asset prices are rising
Bear Market	A period when asset prices are falling (marked by 20%+ downside)
Correction	A period when asset prices drop -10% to -20%
Pullback	A period when asset prices drop -5% to -10%
Compound Growth	Earning interest/growth on both principal <i>and</i> previous interest/growth