WELLS FARGO ADVISORS

Fundamentals of investing: Why invest?

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My Favorite Rules

The first rule of investing is don't lose money; the second rule is - don't forget rule number one.

-Warren Buffet

No one can count your money better than you.”

-Troy E. Bryant

Pay yourself first!

Where to Begin

1. Develop a Plan (6 mos., 1 year, 3 years)
   Where will you be? What will you need?
2. Emergency Fund 6-12 months of Expenses. Start Small: 1-3 months
3. Limit the use of Credit Cards if unable to pay off at the end of each month. Do not buy material item that you do not need on credit!
4. Make a Budget & Use Coupons!
   Stick to the Budget.

Where to Begin

6. Contribute to your Employer Savings Plan

   *At least up to the full match-this is free money that you don't want to pass up.

7. Evaluate Living conditions
8. Shop current Insurance(s), loans, and/or bank accounts.
9. Learn to cook!
10. Revisit your plan Annually

What affects my credit score?

The Formula

Credit scores can be as low as 300 and as high as 850. There are five factors that determine where your number falls in that range:

- 35% of your score is based on your payment history
- 30% is based on current debts
- 15% is determined by credit history
- 10% is allotted to new credit applications
- 10% is about types of current credit

Tip :

Carrying high credit card balances can decrease your credit score.

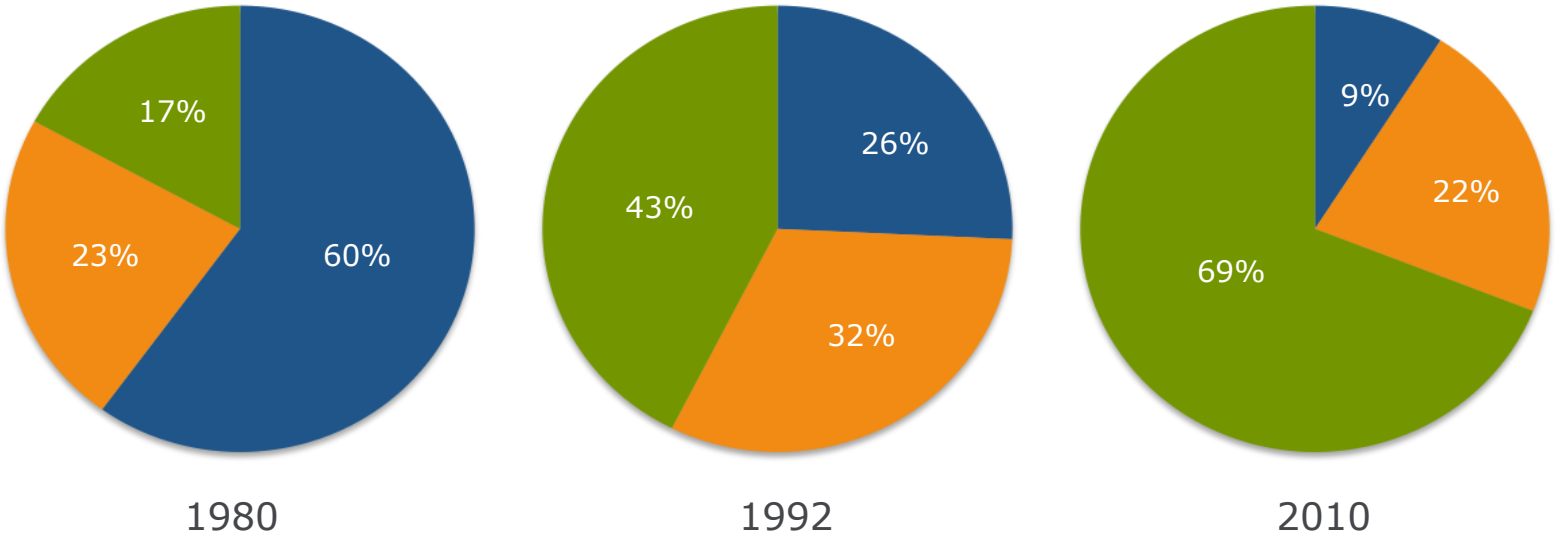
Fundamentals of investing

- Session I: Why invest?
- Session II: Where to invest
- Session III: Putting it all together
- Session IV: Free personal consultation

Are you making saving and investing priorities?

Today's retirement reality

Retirement savings – it's up to you now



- Employee's responsibility
- Employee and company shared responsibility
- Company's responsibility

From 1980 to 2010, the changes in employer sponsored retirement plan offerings has changed dramatically.

Mckinsey & Company, 2011


WHY AREN'T YOU SIGNED UP FOR THE 401K?
www.dilbert.com scottadams@aol.com
I'D NEVER BE ABLE TO RUN THAT FAR.
© 2001 United Feature Syndicate, Inc.
I DID A 10K WHEELCHAIR RACE ONCE. THE GUY WHO PUSHED ME STILL HAS WHIP MARKS.

Why people invest

- Life expectancy has increased
- You may be retired longer than you work
- You'll need to finance your retirement

Average life expectancy for men and women						
Retirement age	40	45	50	55	60	65
Life expectancy	81	81	81	82	83	84
Additional years after retirement	41	36	31	27	23	19

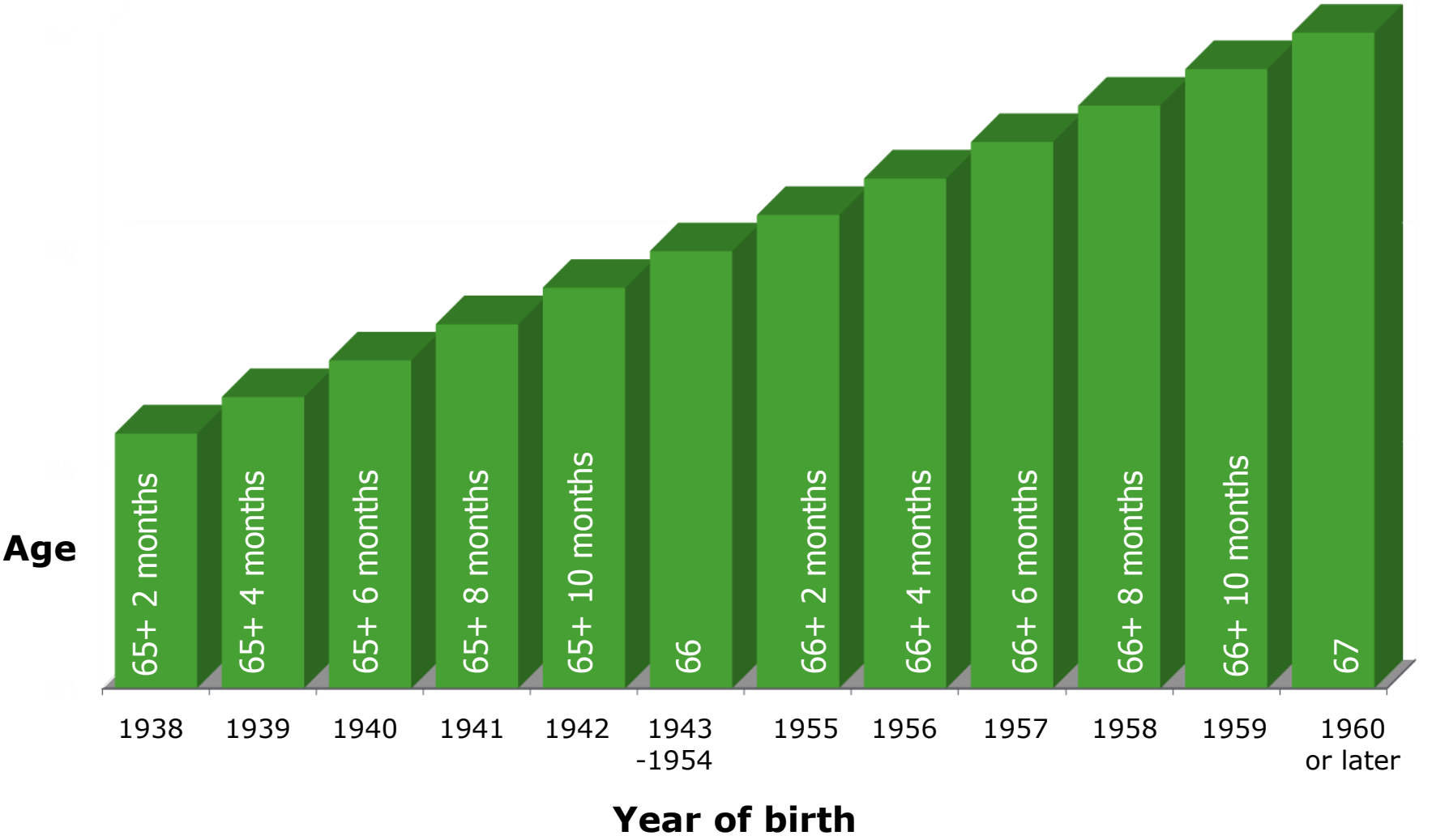
Source: U.S. National Center for Health Statistics, National Vital Statistics Reports, Vol. 64, No. 11, September 22, 2015

Be self-sufficient

- Life expectancy has increased.
- You can’t rely solely on Social Security benefits for funding retirement.
- In 2022, Social Security retirement program costs will begin to exceed trust funds’ income including interest.
- Social Security’s retirement trust funds will be exhausted in 2035.*

*Source: 2015 Status of the Social Security and Medicare Programs, Social Security and Medicare Boards of Trustees

Social Security benefits could decrease as the age for receiving full benefits increases



*Source: Social Security Administration

More considerations for investing

- College costs continue to rise.
- Inflation affects your investment return.

Effects of inflation

Inflation's powerful effects

If prices rise 4% annually:

One dollar today	Five years from now	10 years from now	20 years from now
			
$1.00	82¢	66¢	44¢

Relative worth

Source: Consumer Price Index

You may live longer than you think

Probability of a 65-year old in good health living to various ages

83 years old
50% chance

→

91 years old
20% chance

MALE

86 years old
50% chance

→

94 years old
20% chance

FEMALE

90 years old
50% chance

→

95 years old
25% chance

COUPLE*

Source: Social Security 2010 tables with 1% mortality improvement.

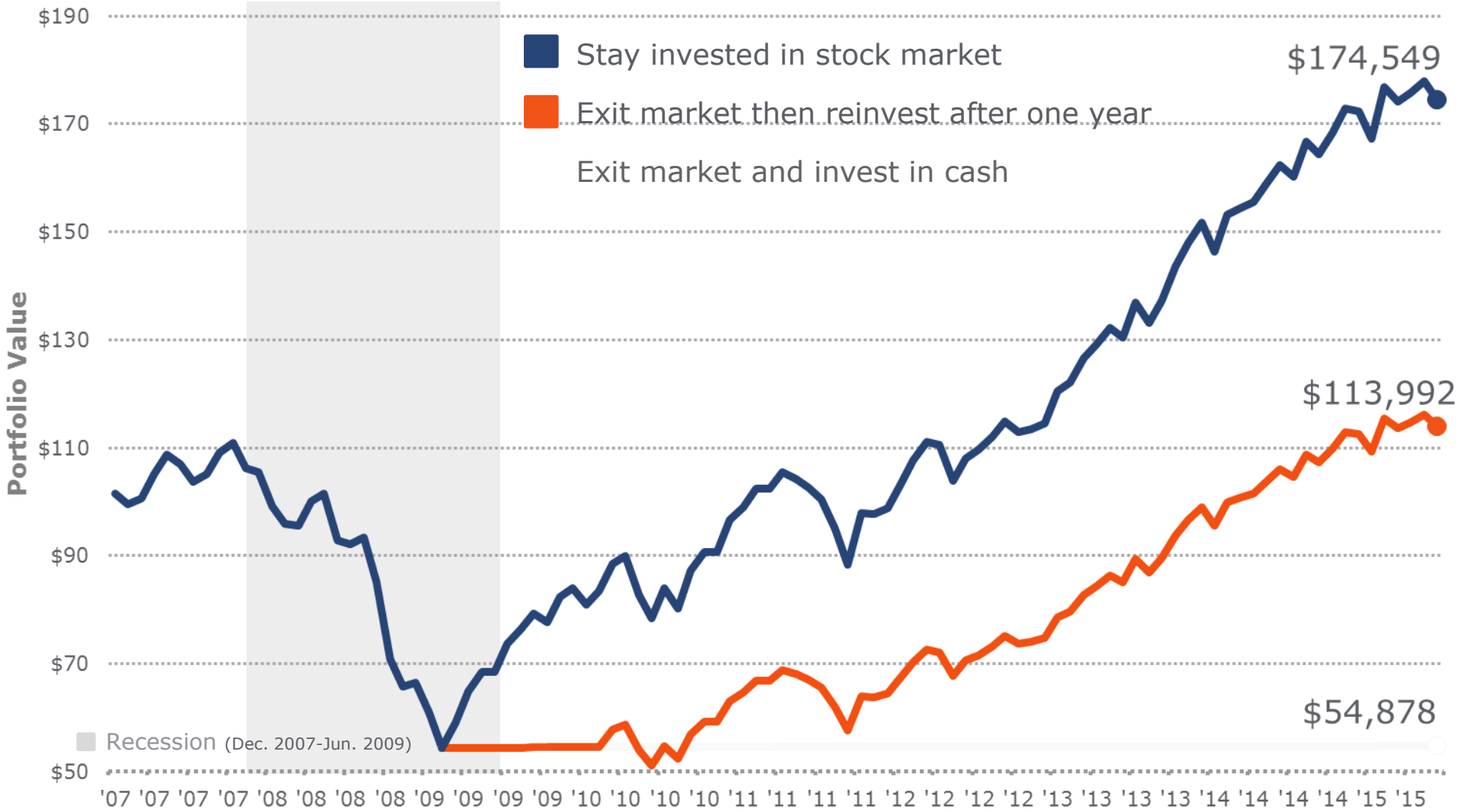
*Longevity of one member of a couple

The impact of inflation

- Loaf of bread[1]
  - 1985: 57¢
  - 2015: $1.43
- Regular gasoline (per gallon)[1]
  - 1985: $1.21
  - 2015: $2.06
- Movie ticket[2]
  - 1985: $3.55
  - 2015: $8.43

1. Source for prices: Bureau of Labor Statistics
2. Source for prices: Box Office Mojo

The importance of staying invested



Source: Morningstar and National Bureau of Economic Research (NBER). The market is represented by the Standard & Poor's 500®, which is an unmanaged group of securities considered a representation of the U.S. stock market in general. Cash is represented by the S&P/BGCantor U.S. Treasury Bond Index which is comprised of sub-indices that are differentiated by the range of maturities of its constituents. This index seeks to measure the performance of the U.S. Treasury Bond market maturing in 0 to 1 years. Past performance is not guarantee of future results. This information is hypothetical and is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. The data assume reinvestment of income and do not account for taxes or transaction costs.

Your real return adjusted for inflation and taxes

Real return

$10,000 bond investment
x 4.5% interest

$450 per year

$450
- $200 (inflation)

$250
- $126 (taxes)

$124 return after taxes and inflation

Based on 2% inflation and a 28% tax bracket. Figures are for illustrative purposes and are not intended to reflect actual investment performance.

Positioning assets for retirement income

Income-taxed withdrawals	Gains taxed at capital gains rates	Tax-advantaged – generally tax-free
• IRA, 401(k), SEP, etc. • Deferred compensation • Pension plans • Traditional IRA • Annuities[1] • Income from real estate	• Stock sales • Mutual fund share redemptions • ETF share sales • Sales of real estate	• Qualified Roth IRA withdrawals • Tax-free municipal bond interest • Life insurance cash value

1. Non-qualified annuities are taxable to the extent of any gain in the contract.

	TAXED BEFORE	TAXED DURING	TAXED AFTER	PENALTIES BEFORE 59 1/2
401(k), 457, 403(b)	NO	NO	YES	YES. 10% + income bracket. Not for 457s.
Traditional IRA	NO	NO	YES	YES. 10% + income bracket
Roth IRA	YES	NO	NO	YES. 10% on growth. 5 years holding min.
Brokerage	YES	YES	YES	NO
Mutual Funds	YES	YES	YES	NO

What's the difference?

Developing investment strategies can help you:

- Define financial goals
- Fight inflation
- Reduce taxes
- Manage the unexpected
- Understand and manage investment risk
- Provide money for regular and special expenses
- Enrich your retirement

What stage are you in?

- Builders
  - Younger than 35 years old
- Cruisers
  - Ages 35 to 50 years old
- Coasters
  - Ages 50 years and older

Builders: younger than 35 years

- Manage debt
  - Credit cards, auto loans, mortgage, etc.
- Build savings
- Identify insurance needs
  - Medical, life, car, etc.
- Develop systematic investing
  - Retirement plans or emergency savings

Cruisers: ages 35 to 50 years old

- Pay children's expenses
  - Education: private schools and/or college
  - Weddings
- Accumulate investments
  - Retirement plan
  - Supplemental savings plan
- Maintain insurance coverage

Coasters: ages 50 years and older

- Pay down long-term debts
  - Mortgages, etc.
- Monitor your investment portfolios
  - Retirement-plan adjustments
- Review insurance needs
- Focus on estate preservation and long-term care

Life and disability insurance

- Life insurance
  - Provide for your family
  - Maintain up to 10 times your annual income
- Disability insurance
  - Protect your income
  - Create safety net if you lose your greatest asset – your income
  - Replace at least 60% of your income

Excuses not to invest

- Too young
- Don’t earn enough income

- Children’s expenses
- Mortgage payments

- Too late to invest
- Finally enjoying income after raising children

Where to invest

- Stocks:
  - Value fluctuates with market price
  - May pay dividends
- Bonds:
  - Pay interest
- Cash alternatives:
  - Checking and savings accounts
  - Bank CDs
  - Money market funds

Stocks offer long-term growth potential but may fluctuate more and provide less current income than other investments. Bonds offer a fixed rate of return and investment principal if held to maturity. The investment return and principal value of mutual funds will fluctuate, and shares, when sold, may be worth more or less than their original cost.

Easel Corporation

- Charter authorizes 20,000 shares of common stock
- Sells 10,000 shares at $10 per share
- Raises $100,000

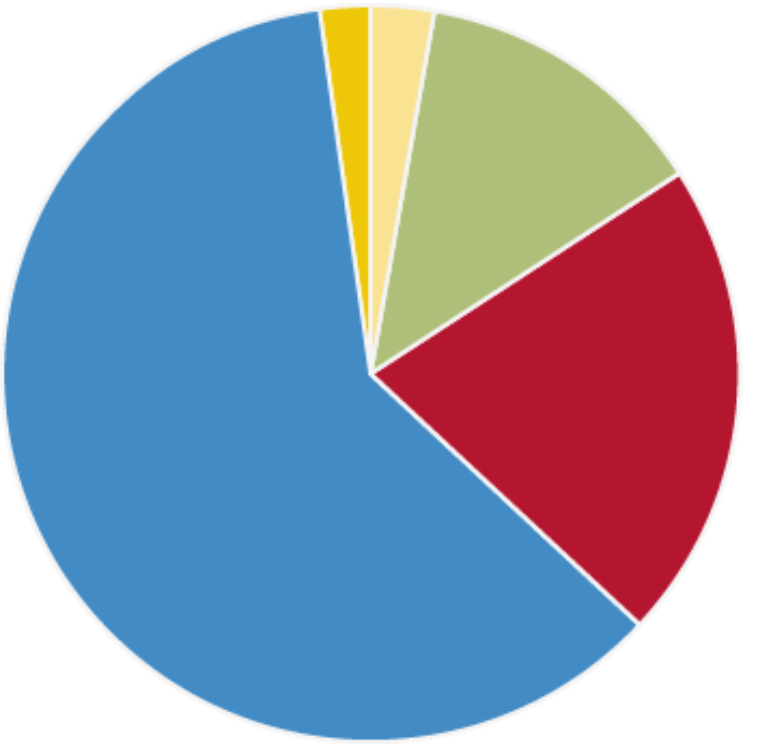
Need to raise
another $100,000

Easel Corporation

- Issue corporate bonds to borrow $100,000
  - Secured bonds
  - Unsecured bonds

What asset allocation?

The blending of stocks, bonds
and cash alternatives
in your portfolio

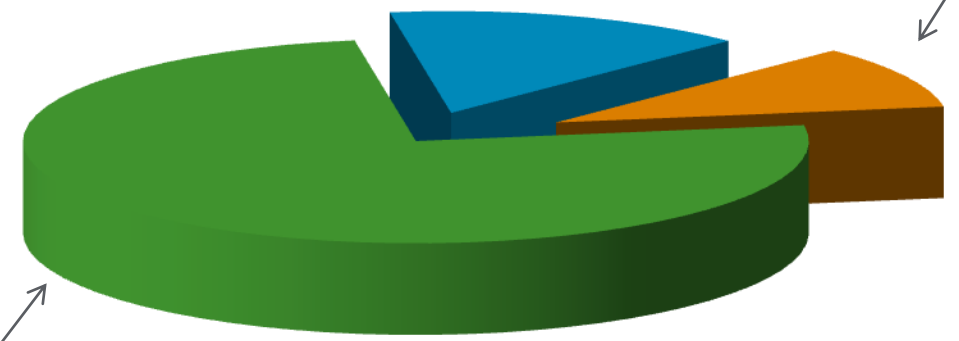


Matching asset allocation

Builders

10% Cash alternatives
Treasury bills, money market funds, CDs, checking and savings accounts

15% Fixed income
mutual funds, bonds, CDs



75% Equity
common stocks, stock mutual funds

This illustration is for informational purposes only, and is not intended to represent an actual investment allocation. We would need to review each individual's unique situation before recommending any investment allocation.

Cruisers

50% Equity
common stocks, stock mutual funds

10% Cash alternatives
Treasury bills, money market funds, CDs, checking and savings accounts

40% Fixed income
intermediate-term Treasury securities, mortgage-backed securities, municipal bonds, etc.

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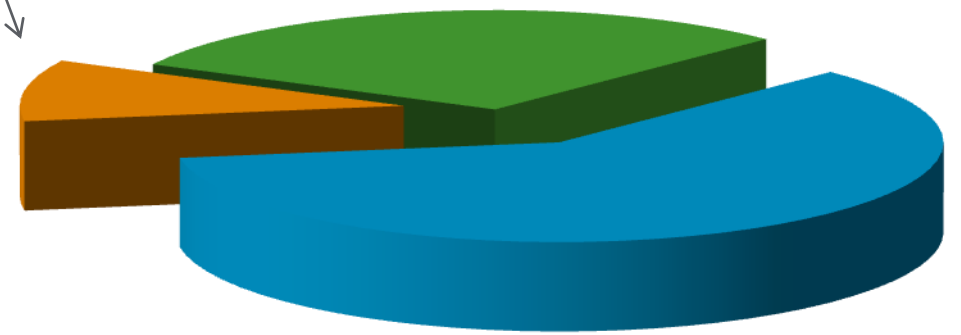
Coasters

10% Cash alternatives
Treasury bills, money market funds, CDs, checking and savings accounts

30% Equity
common stocks, stock mutual funds



60% Fixed income
intermediate-term Treasury securities, mortgage-backed securities, municipal bonds, etc.

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Securities and Insurance Products:

Not Insured by FDIC or any Federal Government Agency	**May Lose Value**	**Not a Deposit of or Guaranteed by a Bank or Any Bank Affiliate**

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