WELLS FARGO ADVISORS

Session II: Where to Invest

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Seek the advice of tax and legal advisors

This presentation is designed to provide accurate and authoritative information regarding the subject matter covered. You should understand that Wells Fargo Advisors is not engaged in rendering legal, accounting or tax-preparation services. If tax or legal advice is required, you should seek the services of an appropriate, competent professional.

Wells Fargo Advisors' view is that investment decisions should be based on investment merit, not solely on tax considerations. However, the effects of taxes are a critical factor in achieving a desired after-tax return on your investment.

The information provided is based on internal and external sources that are considered reliable; however, the accuracy of the information is not guaranteed. You should direct specific questions on taxes as they relate to your situation to your tax advisor.

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

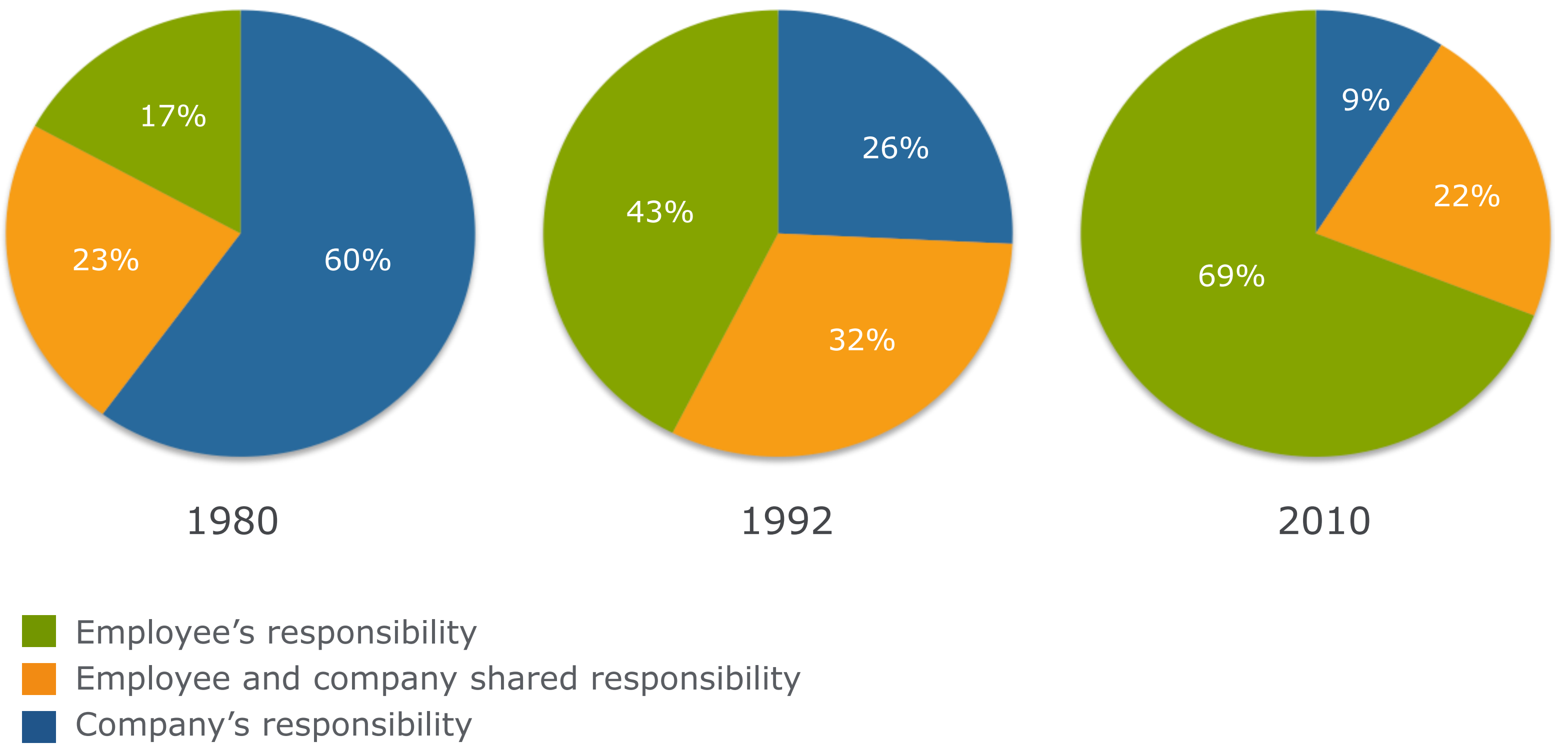
Pay yourself first!

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. <u>Do not buy material item that you do not need on credit!</u>
4. Make a Budget & Use Coupons!
   Stick to the Budget.

Today’s retirement reality

Retirement savings – it’ s up to you now



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

Mckinsey & Company, 2011

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

Simple interest

Year 1	Year 2	Year 3
\$1,000	\$1,000	\$1,000
x 1.05	x 1.05	x 1.05
\$1,050	\$1,050	\$1,050

Compound interest

$1,000
x 1.05
$1,050
Year 1

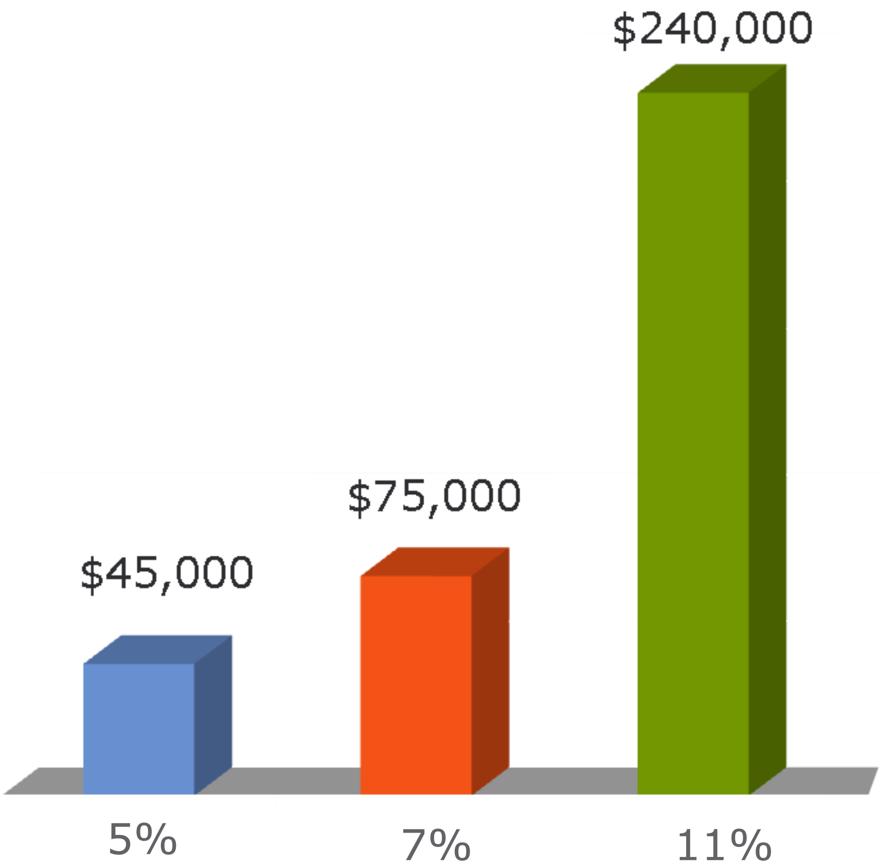
$1,050
x 1.05
$1,103
Year 2

$1,103
x 1.05
$1,158
Year 3

$1,158
x 1.05
$1,216
Year 4

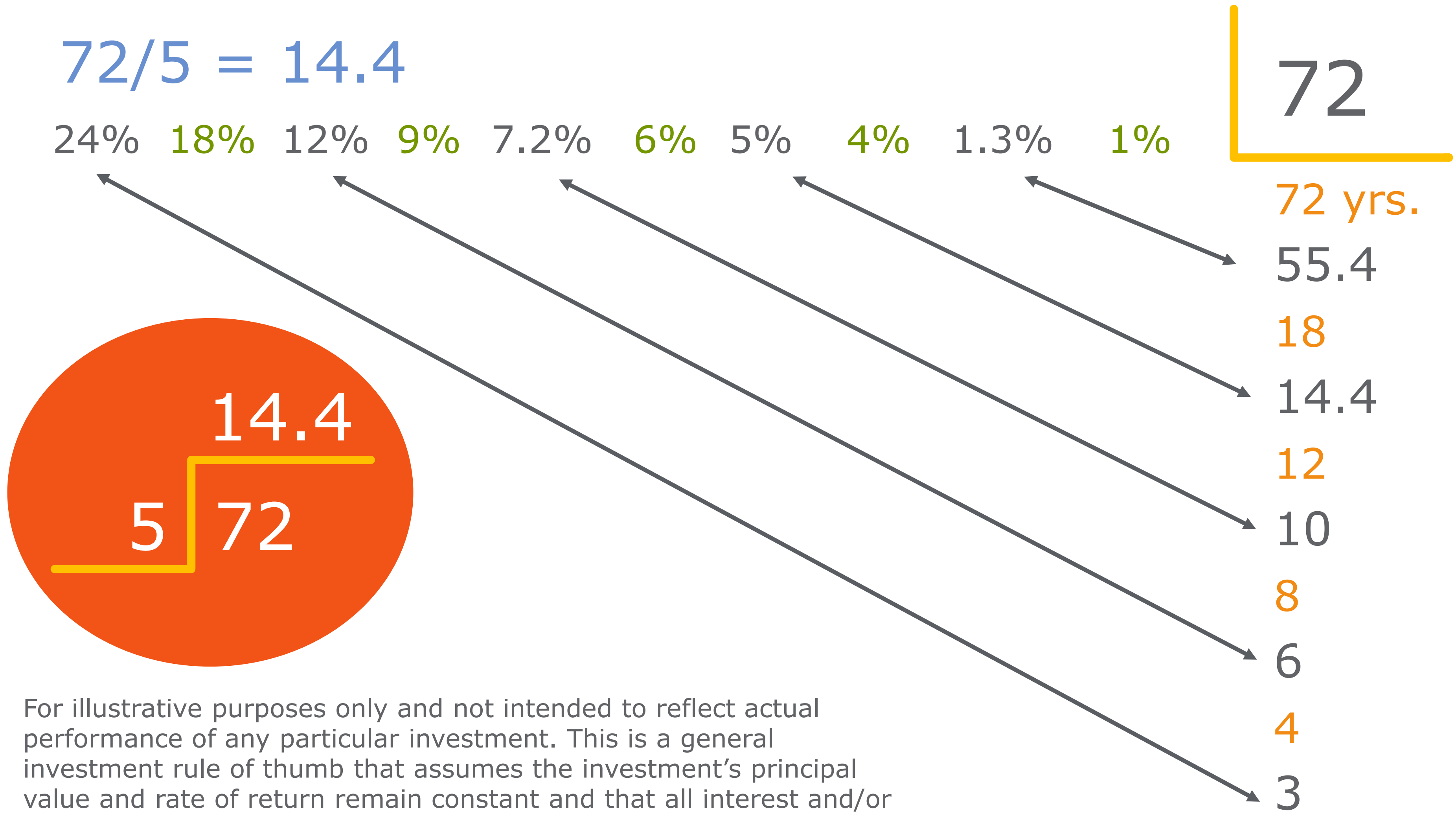
$1,216
x 1.05
$1,277
Year 5

A dollar per day from ages 25 to 65 years old



For illustrative purposes only and not intended to reflect actual performance of any particular investment.

Rule of 72



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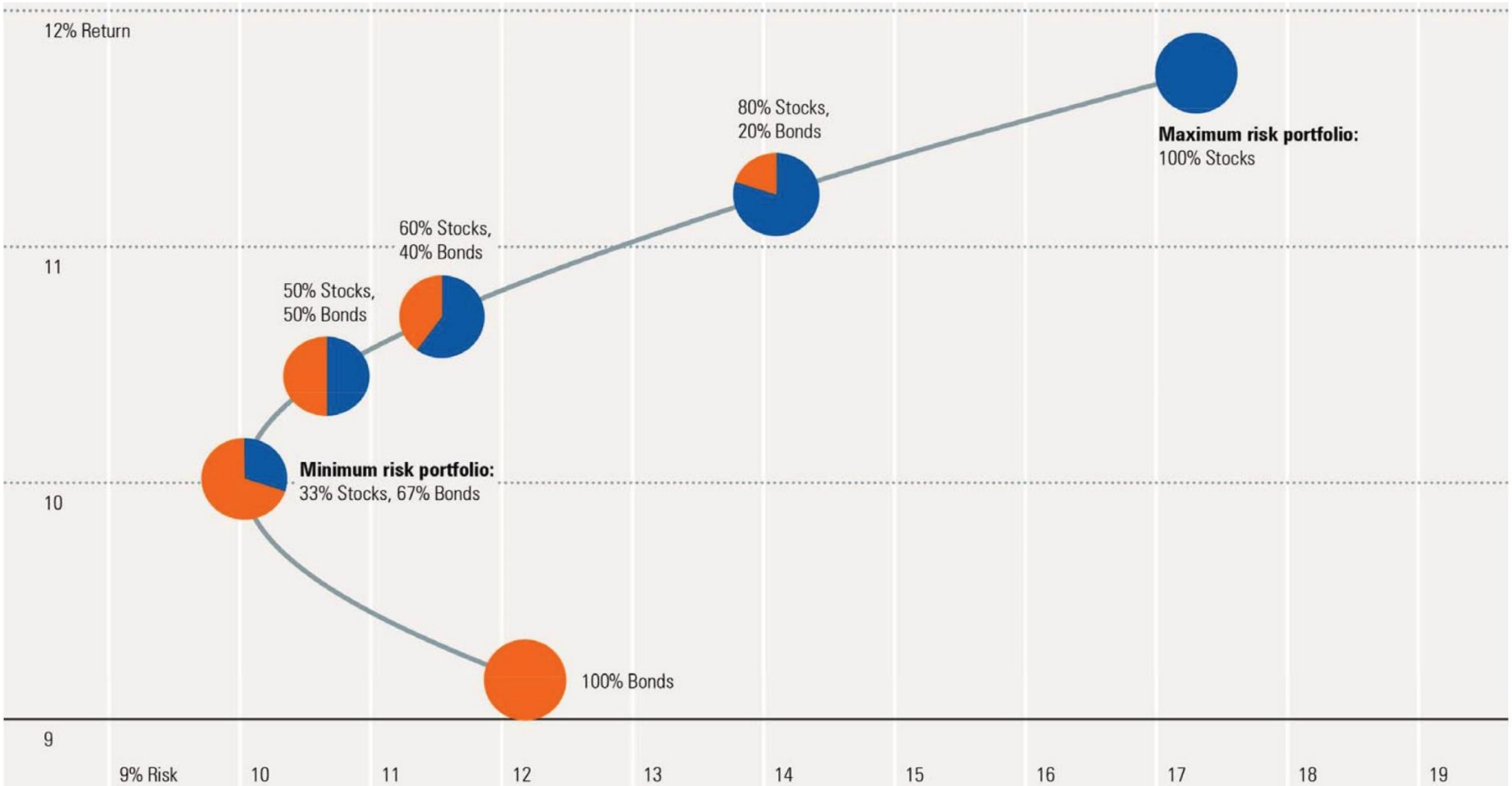
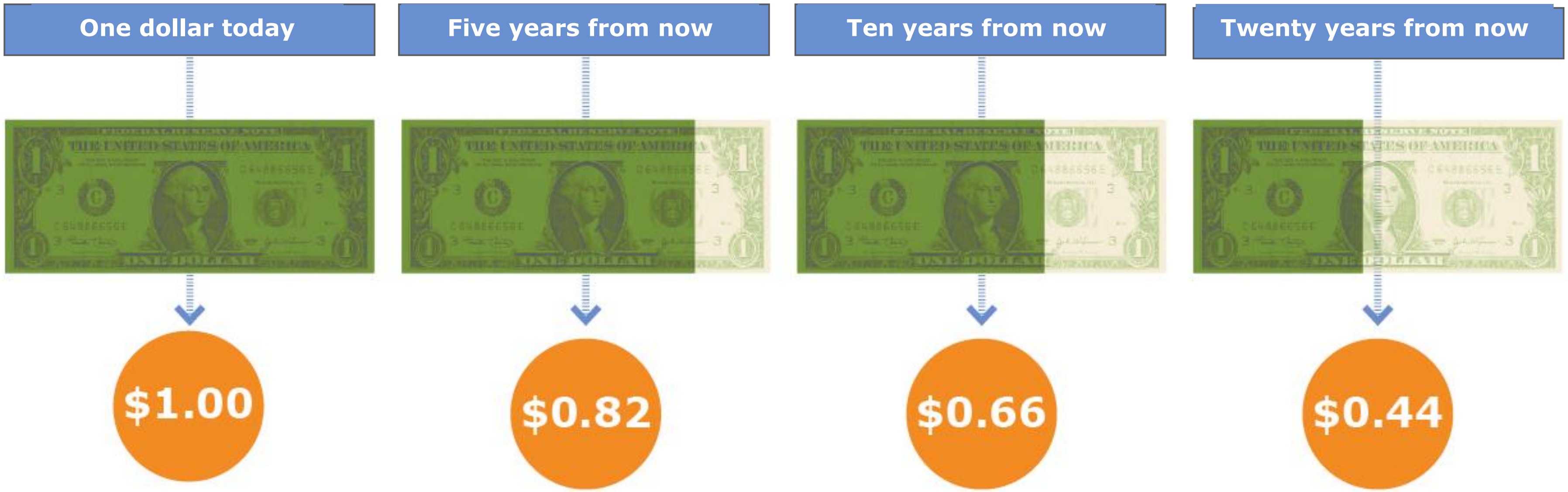
Stocks and bonds: risk versus return

1970–2015



Past performance is not a guarantee of future results. Diversification does not eliminate the risk of experiencing investment losses. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Risk and return are based on annual data over the period 1970-2015 and are measured by standard deviation and arithmetic mean, respectively. Arithmetic mean is defined as a simple average of returns. Standard deviation is the fluctuation of returns around the arithmetic average return of the investment. The higher the standard deviation, the greater the variability (and thus risk) of the investment returns. Stocks are represented by the Ibbotson Large-Company Stock Index and bonds by the 20-year U.S. government bond.

Inflation’s powerful effects



Assumes a 4% inflation rate.

Why invest in stocks?

- Potential inflation hedge
- Growth potential
- May issue dividends
- Total-return potential

Facts about stock ownership

- Stock investors own shares of a company
- There are a number of ways to invest in stocks:
  - Individually
  - Mutual funds
  - Defined portfolios
  - Variable annuities
  - Private money managers

Dividends

- Portion of company's profits paid to shareholders
- Income investors choose companies with consistent dividend payments

Yield

$$\frac{\text{Annual cash dividend}}{\text{Current stock price}} = \text{Current yield}$$

Yield

$$\frac{\text{Annual Cash Dividend}}{\text{Current Stock Price}} = \text{Current Yield}$$

$$\frac{\$2}{\$50} = 4\%\ \text{Yield}$$

Earnings per share (EPS)

- Key number in determining a **company's** investment value

$$\frac{\textbf{Net income}}{\textbf{Common stock outstanding}} = \textbf{EPS}$$

Payout ratio

- Important number for income investors
- Dividend-to-EPS ratio

Ex-dividend date

- Ex-dividend date means “without the current dividend.”
- If you buy stock after the ex-dividend date, the seller will receive the current dividend.

Monday	Tuesday	Wednesday	Thursday	Friday
		Ex-dividend	Bought stock without dividend	Record date

Stock split

- Before split:
  100 shares at $100 = $10,000
- After 4-for-1 split:
  400 shares at $25 = $10,000
- Before **reverse** split:
  10,000 shares at $1 = $10,000
- After 25-to-1 **reverse** split:
  400 shares at $25 = $10,000

How to invest in stocks

- Establish goals
- Establish your risk tolerance
- Determine what to buy

Bonds

- You are a lender to the company
- You earn interest on the money you lend

Corporate bonds

- Annual interest and yields

$$
\begin{array}{lr}
 & \$1{,}000 \\
\times & 5.50\% \\
\hline
 & \$55
\end{array}
$$

Annual interest

Corporate bonds

- Annual interest and yields

$$
\begin{array}{rr}
 & \$1{,}000 \\
\times & 5.50\% \\
\hline
 & \$55
\end{array}
$$

Annual interest

$55 ÷ $1,030 = 5.34% current yield

Bond yields

- Example:
  - 10 years to maturity
  - 5.50% coupon rate
  - Paid $30 premium over par $1,000
  - Callable in five years for $1,000
- 5.11% = yield to maturity
- 4.81% = yield to call

Government bonds

- $5,000 and $10,000 denominations
- Backed by the full faith of the government
- Risks include:
  - Country risk
  - Political risk
  - Inflation risk
  - Interest-rate risk

Tax-free municipal bonds

- Interest is free from federal taxes and sometimes state taxes
- $5,000 denominations

Tax-free municipal bonds

- General obligation
- Revenue

Taxable investment vs. tax-free municipal bonds

Taxable
$10,000
x 4.5%
$450 interest
x 28%
$126 taxes
$ 450
- 126
$324 after taxes

Taxable investment vs. tax-free municipal bonds

Taxable	Tax-free municipal
$10,000	$10,000
x 4.5%	x 3.5%
$450 interest	$350 interest
x 28%	x 28%
$126 taxes	$98 taxes
$ 450	$ 350
- 126	- 0
$324 after taxes	$350 after taxes

Taxable-equivalent yield

$$\frac{100 \times \text{Tax-exempt yield}}{100\% - \text{Investor's tax bracket}} = \text{Taxable-equivalent yield}$$

Example:

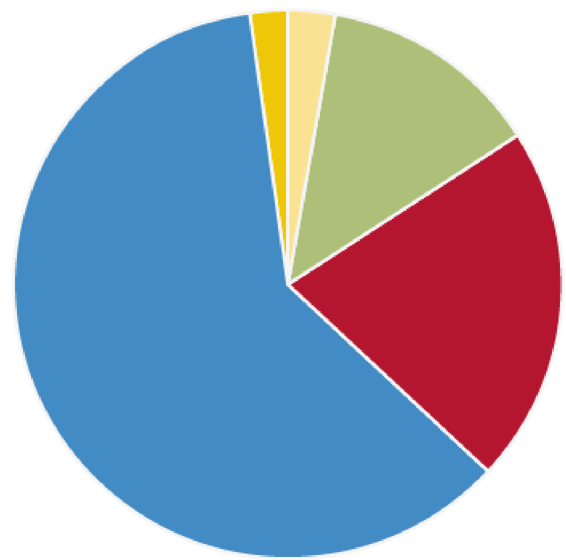
$$\frac{100 \times 3.5\% = 3.5}{100 - 28\% = 72} = 4.86\%$$

Investment-grade-bond ratings

	S&P (+ or -)	**Moody's (1, 2 or 3)**
Superior	AAA	Aaa
Excellent	AA	Aa
Favorable	A	A
Average	BBB	Baa

Mutual fund advantages

- Professional management
- Diversification
- Pooled money
- Liquidity



Mutual fund pricing

- Front-end load
- Back-end load
- No load
- All funds have management fees

Fund families

- Exchange privilege
- Include funds managed to suit various investment risk and return objectives:
  - Growth
  - Income
  - Conservative
  - Aggressive

Taxation of mutual funds

- Dividends — taxed as they occur
- Trading profits — taxed as they occur
- Exchanges — taxed as they occur

Exchange-traded funds (ETFs)

- Index fund
- Track one specific index
- Buy/sell like stocks
- Price set by underlying index

Important disclosures

- Insurance products are offered through our affiliated non-bank insurance agencies.
- Dividends are not guaranteed and are subject to change or elimination.
- Investing in fixed income securities involves certain risks, such as market risk if sold prior to maturity and credit risk, especially if investing in high-yield bonds, which have lower ratings and are subject to greater volatility. All fixed income investments may be worth less than their original cost upon redemption or maturity.
- Yields and market value will fluctuate so that your investment, if sold prior to maturity, may be worth more or less than its original cost.
- Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline of the value of your investment.
- Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, and, if available, the summary prospectus, which contain this and other information, can be obtained by calling your Financial Advisor. Read the prospectus and, if available, the summary prospectus, carefully before you invest.
- Exchange traded funds (ETFs) seek investment results that, before expenses, generally correspond to the price and yield of a particular index. There is no assurance that the price and yield performance of the index can be fully matched.
- Ibbotson Large-Company Stock Index represents the S&P 90 Index from 1926-1956 and the S&P 500 Index thereafter.

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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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