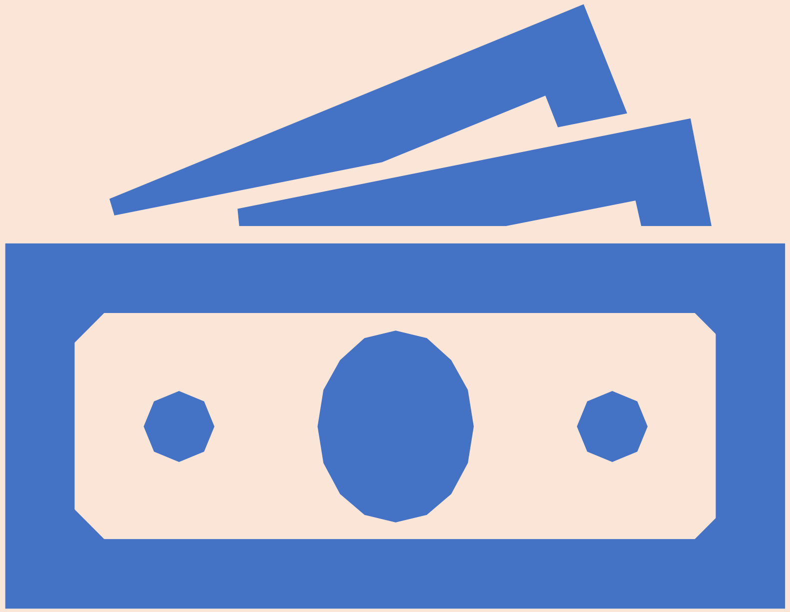
Lesson 14

Personal Financial Plan

Part 1
Money, Credit, and Loans



Understanding your pay stub

Employee	Employee Number	Check #	Check Amount
Julie Jones	999-88-7766	164	

Employee Address
408 S 11th St.
Ash Grove, MO 65604

	Pay Type- Gross Pay	Deductions	Current	Year-to-date
.062*1,083.33= 67.17	26,000/24 = $1,083.33	Federal Withholding	122.05	$366.15
		State Withholding	42.27	$126.81
		Fed OASDI/EE or Social Security		$201.51
		Fed MED/EE or Medicare		$47.13
		Medical		$126.00
		401K		$228.93
		Totals		$ 1,096.53

Pay Period

Employee information: Julie Jones
408 South 11th Street
Ash Grove, MO 65604
Social Security number: 999-88-7766

Julie Jones has just secured a job as a teller at the Guardian National Bank. Julie is paid twice a month on the 1st and the 15th. The pay period is February 1 – 14. Payday will be on March 1. Julie is on salary and earns $26,000 per year. She has medical benefits and a retirement package.

Julie's paycheck deductions include: 6.2% Social Security, 1.45% Medicare, $122.05 Federal Withholding Tax, $42.27 State Withholding Tax, $42.00 Medical, and $76.31 401K.

What amount will Ms. Jones receive on her paycheck? ____________

Social Security - Maximum taxable earnings will be $176,100, and the maximum benefit will be $4,018/mo.

Information on a pay stub

------------- | Employee Information | | Name: John Doe | | Address: 123 Main St, Anytown, USA | | Employee ID: 456789 | --- | Employer Information | | Name: ABC Corporation | | Address: 456 Corporate Blvd, Anytown, USA | -- | Pay Period: 01/01/2025 - 01/15/2025 | -- | Gross Pay: | | Regular Wages: $2,000.00 | | Overtime Pay: $200.00 | | Bonuses: $100.00 | | Total Gross Pay: $2,300.00 | -- | Deductions: | | Federal Income Tax: $300.00 | | State Income Tax: $100.00 | | Social Security Tax: $142.60 | | Medicare Tax: $33.35 | | Health Insurance: $50.00 | | Retirement Contributions: $100.00 | | Other Deductions: $20.00 | | Total Deductions: $745.95 | -- | Net Pay: $1,554.05 | -- | Year-to-Date Totals: | | Gross Pay: $2,300.00 | | Deductions: $745.95 | | Net Pay: $1,554.05 | --

Personal Tax Rates
Progressive Taxes

SINGLE TAXPAYERS

	2022Tax Rates – Standard Deduction $12,950		2017 Tax Rates – Standard Deduction $6,350
10 %	0 to $10,275	10%	0 to $9,325
12 %	$10,276 to $41,775	15%	$9,325 to $37,950
22 %	$41,776 to $89,075	25%	$37,950 to $91,900
24 %	$89,076 to $170,050	28%	$91,900 to $191,650
32 %	$170,051 to $215,950	33%	$191,650 to $416,700
35 %	$215,951 to $539,900	35%	$416,700 to $418,400
37 %	Over $530,901	39.60 %	Over $418,400

earnings	std ded	taxable earnings	tax	tax percent
$12,950	$12,950	$0	$0	0%
$50,000	$12,950	$37,050	$4,240	8%
$100,000	$12,950	$87,050	$14,768	15%
$1,000,000	$12,950	$987,050	$328,163	33%

Advantages and Disadvantages of credit

We're using Credit whenever we receive goods and services in exchange for the promise of future payment for those goods and services.

Credit enables people to buy things, such as cars or homes, which it could otherwise take years to save to buy.

Credit allows people to make an unexpectedly large payment, such as a car repair or medical bill.

Some credit cards allow you to stop payment for unacceptable, falsely advertised, or undelivered products purchased by mail order or Internet.

The downsides to credit can threaten your financial health, so they should serve as cautions to those of us concerned about controlling budget: Credit can add fees and interest to our purchases.

Credit encourages some of us to overspend because it's very easy to lose track of our spending.

Credit can lead us to believe we will have money to repay debt in the future when we really don't know that for sure.

Overspending can lead to debt problems—and even bankruptcy—when payments to creditors exceed our ability to repay.

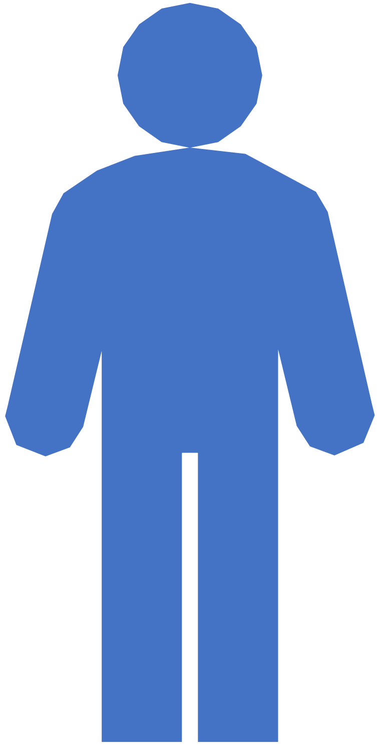
TYPES of Loans
It costs money to borrow money

Item	Type	Cash price	Monthly payment	term	Total credit price
$20,000 student loan	amortized	$20,000	$242	10 years @ 8%	$29,053
clothes	revolving	$500	$46.31	1 year @ 20%	$555.80
Car loan	amortized	$10,000	$191.89	5 years @ 6%	$11,513
Condo in the South End	amortized	$1,000,000	$5368.96	30 years @ 5%	$1,932,514

Enjoy the Pizza

Source: Federal Reserve Bank

Credit Rating
Who Gets to Borrow Money ?



- Character
  - Used credit before and paid bills on time
- Capital
  - What is your income? Do you own anything? Collateral?
- Capacity
  - Total amount of debts outstanding

	yes	no
Pays telephone bill on time		
Savings account as collateral		
unemployed		
No credit history		
0wns nothing of value		
Late with cable payments		
Same job for 3 years		

Check your credit rating

Credit score used to predict probability of repaying a loan (FICO score)

Scores range from 300 to 850

Credit score is part of application process

Key credit rating agencies

- Equifax: 1-800-685-1111
  www.Equifax.com
- Experian: 1-888-397-3742
  www.Experian.com
- TransUnion: 1-800-916-8800 www.Transunion.com
- Free credit report: 1-877-322-8228
  www.Annualcreditreport.com
- Credit Karma:
  - https://www.creditkarma.com/

Tips to Build Credit

01

Open one bank card and pay total every month

02

Avoid specialty cards

03

Maintain good standing on student loan

04

Pay all bills on time

05

Don’t miss any payments

06

Don’t get too close to credit limit

Good and Bad Credit Activity

IMPACT OF VARIOUS ACTIONS ON CREDIT SCORES

LOW RISK

ACTION	LENDER INTERPRETATION	SCORE IMPACT
Pays bill on time	Wisely handling debt	Improvement
Uses small portion of credit limits	Sufficient access to credit, unlikely to need additional funds	Improvement
Mature accounts	Experienced credit user	Improvement
Uses diverse range of loan products	Experience with different types of repayment requirements	Improvement
Inquiry about new loan	Why the need for credit—exposure or normal expansion?	Small drop
Opens a new loan	Why the need for credit—exposure or normal expansion?	Small drop
New accounts	Will consumer effectively manage new credit?	Small drop
Maxes out credit card (At/near credit limits)	Tipping point: potential for significant exposure	Drop
Pays late—first time	Tipping point: potential for significant exposure	Drop
Pays multiple loans late	All credit at risk	Larger drop
Misses multiple payments on a loan (3 or more)	All credit at risk	Larger drop
Charge-off	Default	Major score drop
Foreclosure	Default	Major score drop
Bankruptcy	Default	Maximum score drop, extended time impact

HIGH RISK

Source:VantageScore

What to do if there’s a problem?

- Contact credit bureau immediately
- Agency will tell you what they need
- Contact creditor directly to resolve situation (e.g. GMAC)
- File addendum with agency explaining your side of the story
- credit card-pay of highest rate first
- Working through problems
  - Call businesses and try to negotiate lower payments
  - Talk to family
  - At BC, talk to ”Successful Start” or Consumer Credit Counseling Service (1-800-388-2227)

Your Parent's Financial Advice Right or Wrong?

Millenials

- College tuition up 1375% since 1978   home prices 4x median income
- Student loans up 4X to $1.48 trillion

Be careful about student loans

- Is a master's degree worth it?

Do you really need a home?

- How long will you live there?

Location! Location! Location!

- what's the best place to live?

Be smart with your spending

- Start saving
- Take advantage of the match - - - 401k plans

Put aside some money for fun!!!!!

The Federal Reserve Board

5 Tips for Getting the Most from Your Credit Card

1. Pay on time.

Paying your credit card account on time helps you avoid late fees as well as *penalty* interest rates applied to your account, and helps you maintain a good credit record. A good credit record leads to a higher credit score, which helps you qualify for lower interest rates. Know the date your payment is due. If your bill is due at an inconvenient time of the month—for example, if it's due on the 10th and you get paid on the 15th—contact your credit card company to see if they will change your billing cycle to fit your cash flow.

2. Stay below your credit limit.

If you go over your credit limit on your card, your card issuer could charge a fee and increase your interest rate to a higher *penalty* rate. To avoid this, keep a record of your spending or check your balance online. Also, be aware that some merchants (for example, hotel and car rental companies) put a "hold" on your credit card based on their estimate of the amount you will charge. This can reduce your available credit until the final charge is processed. See "Credit and Debit Card Blocking" (www.ftc.gov/bcp/edu/pubs/consumer/credit/cre11.shtm).

3. Avoid unnecessary fees.

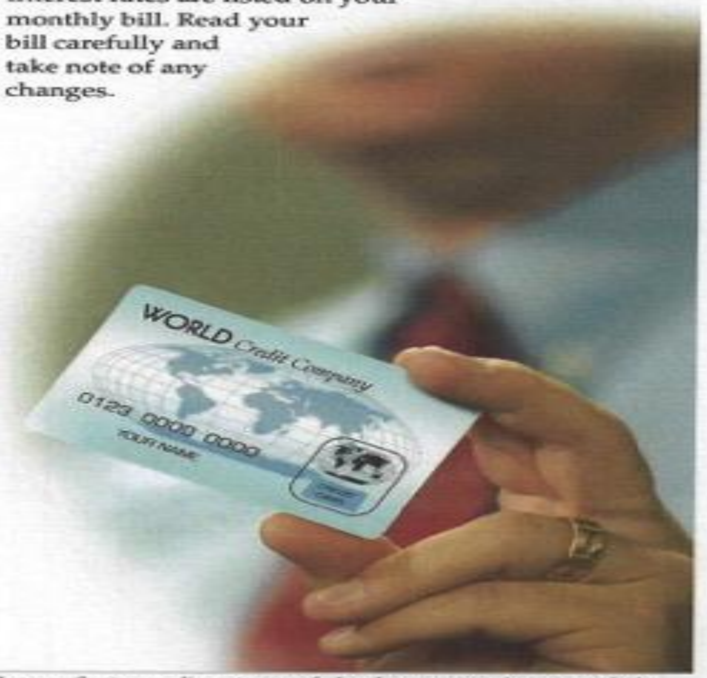
Credit card companies not only charge late payment and over-the-limit fees, but also fees for cash advances, transferring balances, and having a payment returned. Some companies charge a fee when you pay your bill by phone. Pay attention to the transactions that trigger these fees. If you need a cash advance, withdraw enough so that you don't have to take a second cash advance—and incur a second fee—later in the month. Read your credit card agreement to learn more about the fees that your credit card company charges. For more information see "What are the fees?" (www.federalreserve.gov/pubs/shop/default.htm#fees2).

4. Pay more than the minimum payment.

If you can't pay your balance in full each month, try to pay as much of the total as you can. Over time, you'll pay less in interest charges—money that you will be able to spend on other things, and you'll pay off your balance sooner. See the Federal Reserve's Credit Card Repayment Calculator (www.federalreserve.gov/creditcardcalculator) to determine possible repayment timelines.

5. Watch for changes in the terms of your account.

Credit card companies can change the terms and conditions of your account. They will send you advance notices about changes in fees, interest rates, billing, and other features. By reading these "change in terms" notices, you can decide whether you want to change the way you use the card. For example, if cash advance fees increase, you may decide to use a different card for cash advances. If you have a card with a variable rate or if you have an introductory rate that is ending, be aware that credit card companies are not required to send you a notice about raising your interest rate. Interest rates are listed on your monthly bill. Read your bill carefully and take note of any changes.



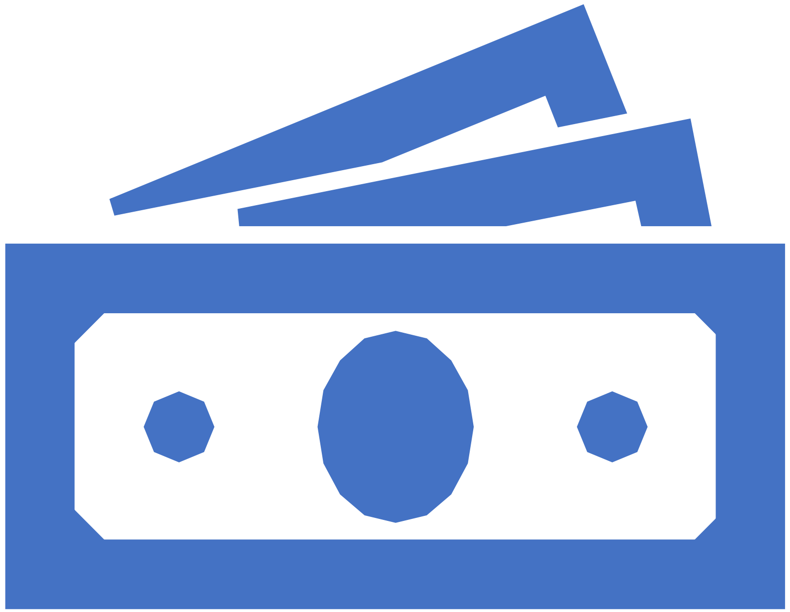
Some Good articles

Financial Starter Kit WSJ https://www.wsj.com/articles/a-financial-starter-kit-11568369600

Q and A for Tax Newbies WSJ https://www.wsj.com/articles/first-time-paying-taxes-buckle-up-11568367002

Your Parents Financial Advice WSJ https://www.wsj.com/articles/first-time-paying-taxes-buckle-up-11568367002

Part 2
Constructing a budget



budget template

Make a Budget

Use this worksheet to see how much money you spend this month. Then, use this month's information to help you plan next month's budget.

Some bills are monthly and some come less often. If you have an expense that does not occur every month, put it in the "Other expenses this month" category.

MONTH ______________ **YEAR** ________

My income this month

Income	Monthly total
Paychecks (salary after taxes, benefits, and check cashing fees)	$
Other income (after taxes) for example: child support	$
Total monthly income	$ 0.00
	Income

My expenses this month

	Expenses	Monthly total
HOUSING	Rent or mortgage	$
	Renter's insurance or homeowner's insurance	$
	Utilities (like electricity and gas)	$
	Internet, cable, and phones	$
	Other housing expenses (like property taxes)	$
FOOD	Groceries and household supplies	$
	Meals out	$
	Other food expenses	$
TRANSPORTATION	Public transportation and taxis	$
	Gas for car	$
	Parking and tolls	$
	Car maintenance (like oil changes)	$
	Car insurance	$
	Car loan	$
	Other transportation expenses	$

Make a Budget

	Expenses	Monthly total
HEALTH	Medicine	$
	Health insurance	$
	Other health expenses (like doctors' appointments and eyeglasses)	$
PERSONAL AND FAMILY	Child care	$
	Child support	$
	Money given or sent to family	$
	Clothing and shoes	$
	Laundry	$
	Donations	$
	Entertainment (like movies and amusement parks)	$
	Other personal or family expenses (like beauty care)	$
FINANCE	Fees for cashier's checks and money transfers	$
	Prepaid cards and phone cards	$
	Bank or credit card fees	$
	Other fees	$
OTHER	School costs (like supplies, tuition, student loans)	$
	Other payments (like credit cards and savings)	$
	Other expenses this month	$
	Total monthly expenses	$ 0.00
		Expenses

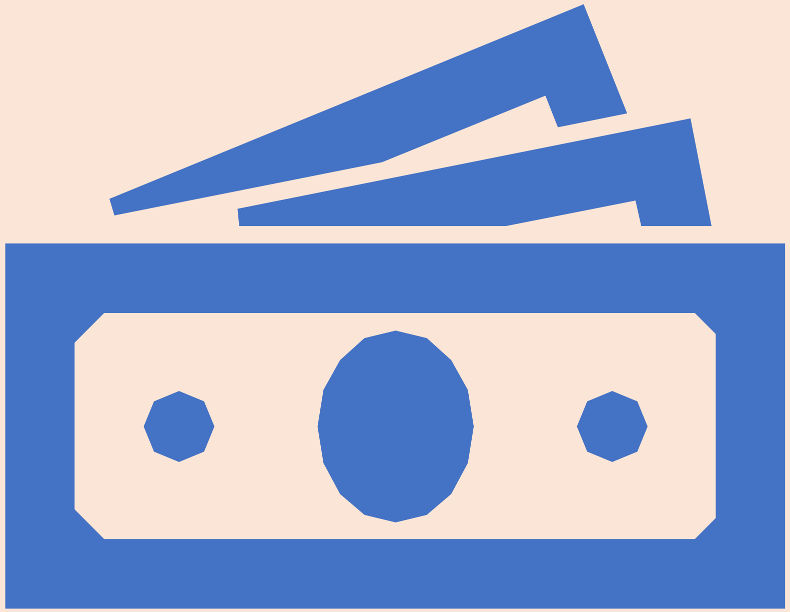
$ 0.00	−	$ 0.00	=	$ 0.00
Income		**Expenses**		

Maybe your income is more than your expenses. You have money left to save or spend.

Maybe your expenses are more than your income. Look at your budget to find expenses to cut.

Print Form

Part 3
Short and long term planning



Why do we plan?

- “Alice: Would you tell me, please, which way I ought to go from here?
  The Cheshire Cat: That depends a good deal on where you want to get to.
  Alice: I don't much care where.
  The Cheshire Cat: Then it doesn't much matter which way you go.
  Alice: ...So long as I get somewhere.
  The Cheshire Cat: Oh, you're sure to do that, if only you walk long enough.”

- — **Lewis Carroll, [Alice in Wonderland]**

How much do you need?

- $1 million @ 8.0% gets you $90,000 for 25 years

Starting age	Annual contribution	Ending value at age 65
25	$3,574	$1,000,000
35	$8,173	$1,000,000
45	$20,233	$1,000,000
55	$63,916	$1,000,000

Setting financial goals

Short-term

Establish a budget

Create an emergency fund

Payoff credit cards

Match with short term assets

Medium term

Get insurance

Payoff student loans

Save for a home, car, vacation

Match with mid term assets

Have some fun

- Long-term – set a long term plan
  - Bigger home
  - Retirement

A 56-Year-Old Couple Who Wants to Retire in 10 Years

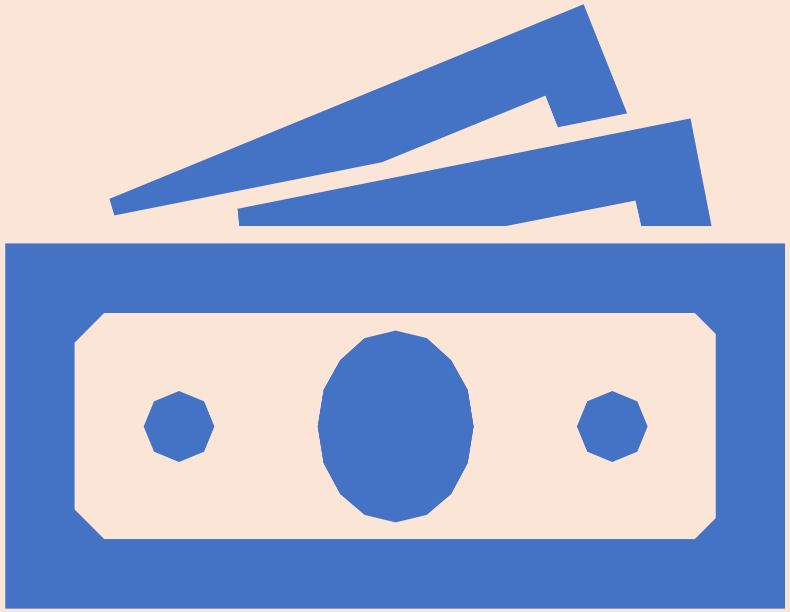
Desired annual living expenses	$ 65,000	
Spouse No. 1's Social Security at age 66	$ (24,000)	$2,000/month
Spouse No. 2's Social Security at age 66	$ (24,000)	$2,000/month
Remaining needs (to come from investments)	**$ 17,000**	
Total investments needed to fund remaining needs, assuming a 4% withdrawal rate ($17,000/.04)	**$ 425,000**	
Current 401(k)/IRA balance (combined, both spouses)	$ (250,000)	
Additional savings needed over the next 10 years*	**$ 175,000**	**($17,500/year; or about $1,460/month)**

Investment Policy Statement

- IPS

- An IPS is the map, activity schedule and outcome document between a financial advisor and client. The first section of the statement includes the client's broad investing goals and objectives. The next component discusses the path that the advisor, in collaboration with the client, follows to reach a set of goals.
- The details include topics such as asset allocation, risk tolerance, and financial goals.

Part 4
Managing your money

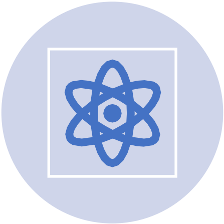


Investing

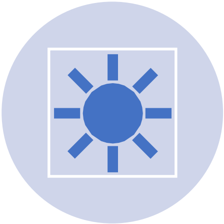
- Types of investments
- How do you decide?
- IPS
- Risk and asset mix
- Mutual funds
- Portfolio mix

Quiz – What's the most powerful force in the universe?

years	amount
10	$162.88
40	$703.99
100	$13,150.13
250	$19,830,093.75
500	$3,932,326,182,721.81



ATOMIC ENERGY



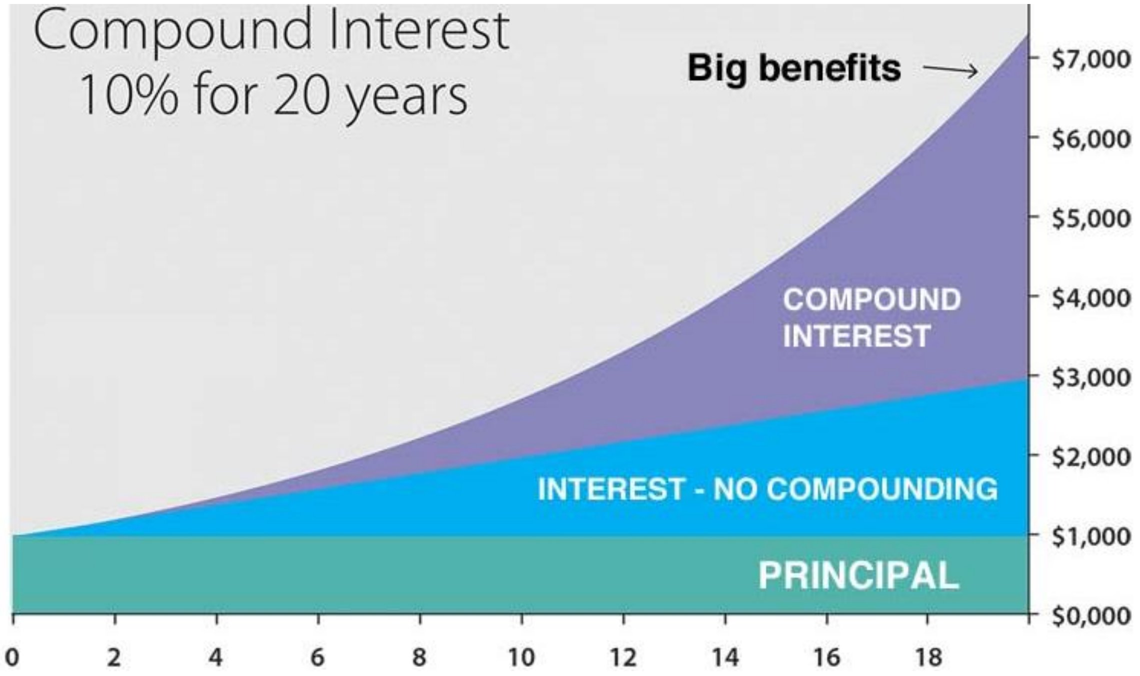
THE SUN

GRAVITY

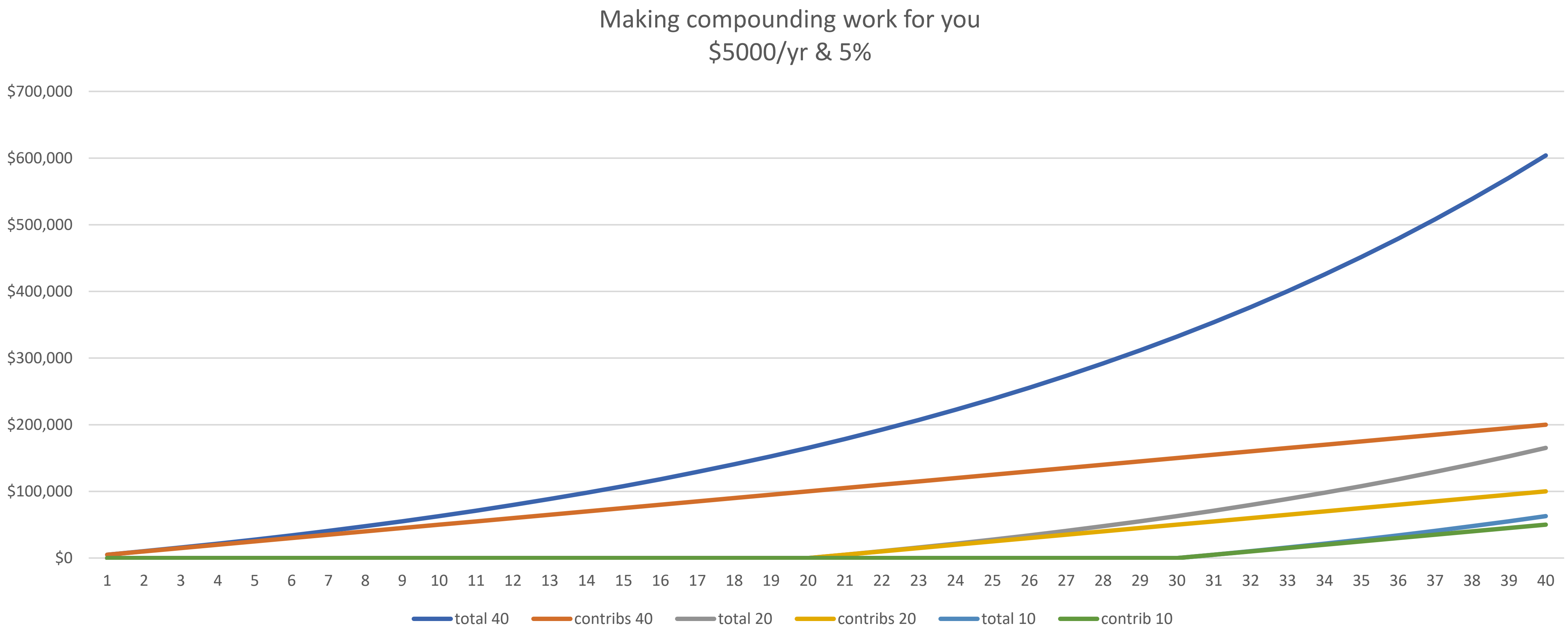
COMPOUND INTEREST

Simple versus compound interest

- Investment 1 – simple interest
  - Invest $1000
  - Sends you a check for $100 every 12 months for 20 years
  - Pays back $1000
  - Total return = $1000 + $2000= $3000
- Investment 2 – compound interest
  - Invest $1000
  - Pays 10% interest on the deposit **and** the interest you earn
  - Total return = $1000 + $2000+ $4100 =$7100
- Which is the better investment?



Time is on your side !



Review of the Fundamentals

Stocks (Equities)

Ownership in the corporation

No guarantees

Unlimited gains or losses

Gains from dividends, price changes – up or down

Bonds (Debt)

Lending money directly to a company (usually $1000 at issue)

Buy debt in the marketplace

Pay a fixed rate of interest e.g. % 5 or $25 every 6 months

Principal paid back at maturity (fixed at issue, 1 year to 30 years)

Gains from interest paid plus change in value

Money Market (Cash)

Short-term loans (1 day to 1 year)

Minimal price changes

Short –term, lowest risk investments (money market mutual funds, bank CD’s)

Bonds are usually low risk with stable returns

Stocks – more uncertainty, higher return

Everyone wants to be in the best-performing asset class every year. The thing is, few people are savvy enough to consistently choose the best. That's why diversification is key. This chart shows annual returns for eight broad-based asset classes, cash and a diversified portfolio ranked from best to worst. Notice how the "leadership" changes from year to year, and how competitively the diversified portfolio performed over 20 years (see the "annualized return" column).

MFS®

ANNUAL RETURN (BEST ↑ to WORST ↓)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Small/ Mid Cap 45.51%	REITs 30.41%	Commodities 21.36%	REITs 34.35%	Commodities 16.23%	Bonds 5.24%	Large Cap Growth 37.21%	REITs 27.58%	Bonds 7.84%	REITs 20.14%
International 38.59%	International 20.25%	International 13.54%	International 26.34%	Large Cap Growth 11.81%	Global Bonds 4.79%	Small/ Mid Cap 34.39%	Small/ Mid Cap 26.71%	REITs 7.28%	Small/ Mid Cap 17.88%
REITs 38.47%	Small/ Mid Cap 18.29%	REITs 8.29%	Large Cap Value 22.25%	International 11.17%	Cash 1.80%	International 31.78%	Commodities 16.83%	Global Bonds 5.64%	Large Cap Value 17.51%
Large Cap Value 30.03%	Large Cap Value 16.49%	Small/ Mid Cap 8.11%	Small/ Mid Cap 16.17%	Global Bonds 9.48%	Diversified Portfolio -27.54%	REITs 27.45%	Large Cap Growth 16.71%	Large Cap Growth 2.64%	International 17.32%
Large Cap Growth 29.75%	Diversified Portfolio 14.48%	Diversified Portfolio 7.92%	Diversified Portfolio 15.02%	Bonds 6.97%	Commodities -35.65%	Diversified Portfolio 23.72%	Diversified Portfolio 15.73%	Large Cap Value 0.39%	Large Cap Growth 15.26%
Diversified Portfolio 27.75%	Global Bonds 9.27%	Large Cap Value 7.05%	Large Cap Growth 9.07%	Cash 4.74%	Small/ Mid Cap -36.79%	Large Cap Value 19.69%	Large Cap Value 15.51%	Cash 0.08%	Diversified Portfolio 12.02%
Commodities 23.93%	Commodities 9.15%	Large Cap Growth 5.26%	Global Bonds 6.64%	Diversified Portfolio 4.69%	Large Cap Value -36.85%	Commodities 18.91%	International 7.75%	Diversified Portfolio -0.16%	Global Bonds 4.32%
Global Bonds 12.51%	Large Cap Growth 6.30%	Cash 3.00%	Cash 4.76%	Small/ Mid Cap 1.38%	REITs -37.34%	Global Bonds 6.93%	Bonds 6.54%	Small/ Mid Cap -2.51%	Bonds 4.21%
Bonds 4.10%	Bonds 4.34%	Bonds 2.43%	Bonds 4.33%	Large Cap Value -0.17%	Large Cap Growth -38.44%	Bonds 5.93%	Global Bonds 5.54%	International -12.14%	Cash 0.07%
Cash 1.07%	Cash 1.24%	Global Bonds -4.49%	Commodities 2.07%	REITs -17.83%	International -43.38%	Cash 0.16%	Cash 0.13%	Commodities -13.32%	Commodities -1.06%

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	ANNUALIZED RETURN
Small/ Mid Cap 36.80%	REITs 27.15%	Large Cap Growth 5.67%	Small/ Mid Cap 17.59%	Large Cap Growth 30.21%	Cash 1.86%	Large Cap Growth 36.39%	Large Cap Growth 38.49%	REITs 39.88%	Commodities 16.09%	Large Cap Growth 10.76%
Large Cap Growth 33.48%	Large Cap Value 13.45%	REITs 2.29%	Large Cap Value 17.34%	International 25.03%	Bonds 0.01%	REITs 28.07%	Small/ Mid Cap 19.99%	Large Cap Growth 27.60%	Cash 1.50%	Small/ Mid Cap 10.26%
Large Cap Value 32.53%	Large Cap Growth 13.05%	Bonds 0.55%	Commodities 11.77%	Small/ Mid Cap 16.81%	Global Bonds -1.20%	Small/ Mid Cap 27.77%	Diversified Portfolio 10.58%	Commodities 27.11%	Large Cap Value -7.54%	REITs 8.90%
International 22.78%	Small/ Mid Cap 7.07%	Cash 0.03%	REITs 9.28%	Large Cap Value 13.66%	Large Cap Growth -1.51%	Large Cap Value 26.54%	Global Bonds 9.20%	Large Cap Value 25.16%	Bonds -13.01%	Large Cap Value 8.83%
Diversified Portfolio 13.41%	Bonds 5.97%	International -0.81%	Diversified Portfolio 8.72%	Diversified Portfolio 13.21%	REITs -4.10%	International 22.01%	International 7.82%	Small/ Mid Cap 18.18%	Diversified Portfolio -13.61%	Diversified Portfolio 7.15%
REITs 3.21%	Diversified Portfolio 5.32%	Small/ Mid Cap -2.90%	Large Cap Growth 7.08%	REITs 9.27%	Diversified Portfolio -5.98%	Diversified Portfolio 20.33%	Bonds 7.51%	Diversified Portfolio 17.45%	International -14.45%	International 6.43%
Cash 0.05%	Global Bonds 0.59%	Global Bonds -3.15%	Bonds 2.65%	Global Bonds 7.39%	Large Cap Value -8.27%	Bonds 8.72%	Large Cap Value 2.80%	International 11.26%	Global Bonds -16.25%	Bonds 3.10%
Bonds -2.02%	Cash 0.03%	Diversified Portfolio -3.33%	Global Bonds 2.09%	Bonds 3.54%	Small/ Mid Cap -10.00%	Commodities 7.69%	Cash 0.58%	Cash 0.05%	Small/ Mid Cap -18.37%	Global Bonds 2.72%
Global Bonds -2.60%	International -4.90%	Large Cap Value -3.83%	International 1.00%	Commodities 1.70%	Commodities -11.25%	Global Bonds 6.84%	Commodities -3.12%	Bonds -1.54%	REITs -25.10%	Commodities 1.37%
Commodities -9.52%	Commodities -17.01%	Commodities -24.66%	Cash 0.27%	Cash 0.84%	International -13.79%	Cash 2.25%	REITs -5.86%	Global Bonds -4.71%	Large Cap Growth -29.14%	Cash 1.22%

MARKET SEGMENT	REPRESENTED BY	STANDARD DEVIATION
Cash	FTSE 3-month T-bill Index[1]	0.43
Bonds	Bloomberg US Aggregate Bond Index[2]	3.88
Global bonds	Bloomberg Global Aggregate Index (Unhedged)[3]	5.88
Diversified portfolio	Equal allocations of all segments disclosed herein, excluding cash	11.52
Large Cap Value stocks	Russell 1000® Value Index[4]	15.34
Large Cap Growth stocks	Russell 1000® Growth Index[5]	15.69
Commodities	Bloomberg Commodity Index[6]	16.43
International stocks	MSCI EAFE Index[7]	16.70
Small/Mid Cap stocks	Russell 2500™ Index[8]	18.51
REITs	FTSE NAREIT All REITs Total Return Index[9]	20.84

Source: FactSet SPAR. Returns are in USD, and net for MSCI EAFE and gross for all other asset classes. Annualized return and standard deviation (annualized) is for the 20-year period ending December 31, 2022. The diversified portfolio is rebalanced quarterly to maintain the equal allocations throughout the period.

How to invest?

- Hire a professional to do it for you
  - Stock broker
  - Financial advisor
- Invest on your own
  - Schwab, TD Ameritrade, Fidelity
  - Individual securities or mutual funds
- Don’t try to time the market

“The secret sauce”

Berkshire- Hathaway

Berkshire-Hathway 2022 Annual Report

At this point, a report card from me is appropriate: In 58 years of Berkshire management, most of my capital-allocation decisions have been no better than so-so. In some cases, also, bad moves by me have been rescued by very large doses of luck. (Remember our escapes from near-disasters at USAir and Salomon? I certainly do.)

Our satisfactory results have been the product of about a dozen truly good decisions – that would be about one every five years – *and* a sometimes-forgotten advantage that favors long-term investors such as Berkshire. Let’s take a peek behind the curtain.

The Secret Sauce

In August 1994 – yes, 1994 – Berkshire *completed* its seven-year purchase of the 400 million shares of Coca-Cola we now own. The total cost was $1.3 billion – then a very meaningful sum at Berkshire.

The cash dividend we received from Coke in 1994 was $75 million. By 2022, the dividend had increased to *$704* million. Growth occurred every year, just as certain as birthdays. All Charlie

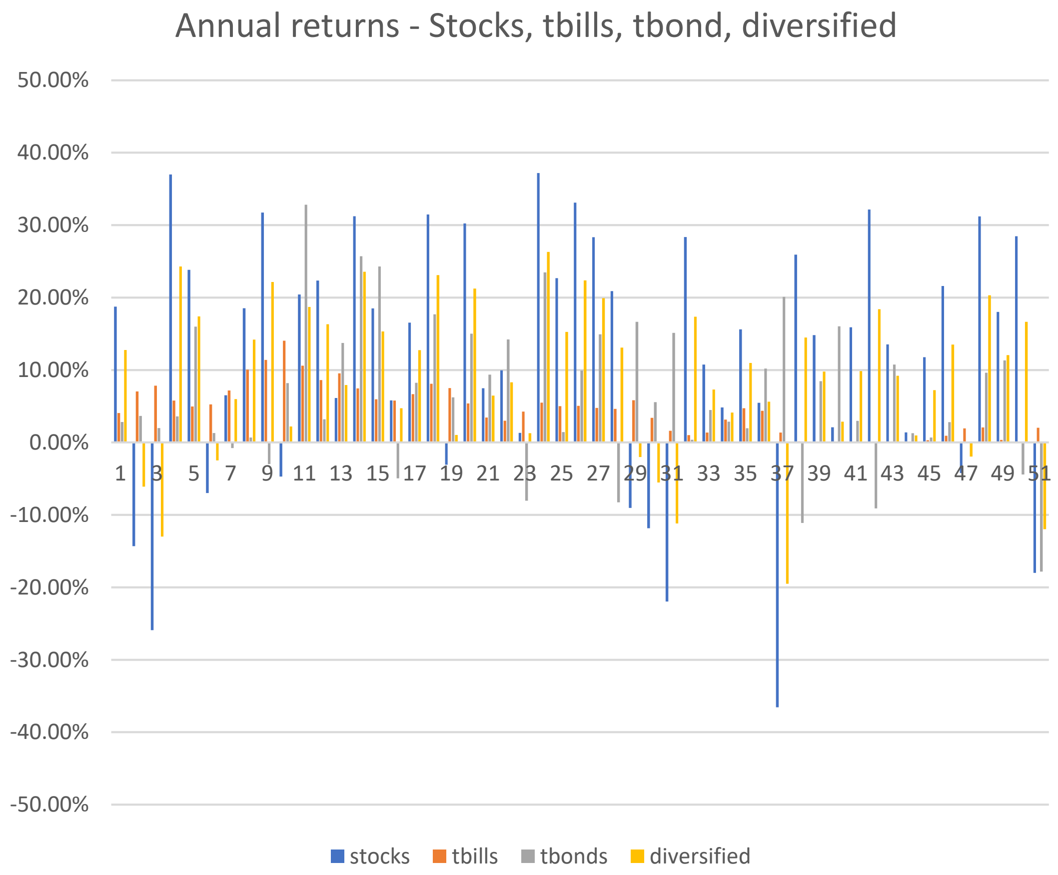
American Express is much the same story. Berkshire’s purchases of Amex were essentially completed in 1995 and, coincidentally, also cost $1.3 billion. Annual dividends received from this investment have grown from $41 million to *$302* million. Those checks, too, seem highly likely to increase.

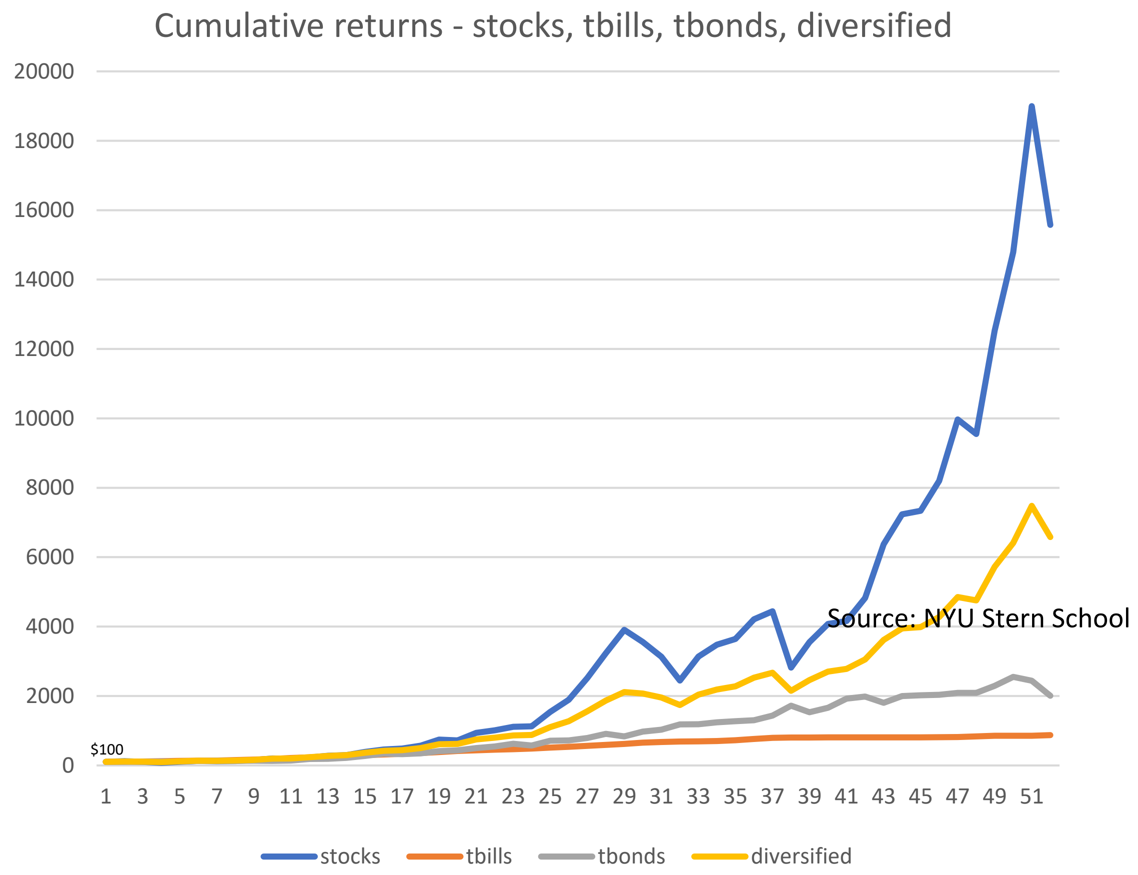
These dividend gains, though pleasing, are *far* from spectacular. But they bring with them important gains in stock prices. At yearend, our Coke investment was valued at $25 billion while Amex was recorded at $22 billion. Each holding now accounts for roughly 5% of Berkshire’s net worth, akin to its weighting long ago.

Assume, for a moment, I had made a similarly-sized investment mistake in the 1990s, one that flat-lined and simply retained its $1.3 billion value in 2022. (An example would be a high-grade 30-year bond.) That disappointing investment would now represent an insignificant 0.3% of Berkshire’s net worth and would be delivering to us an unchanged $80 million or so of annual income.

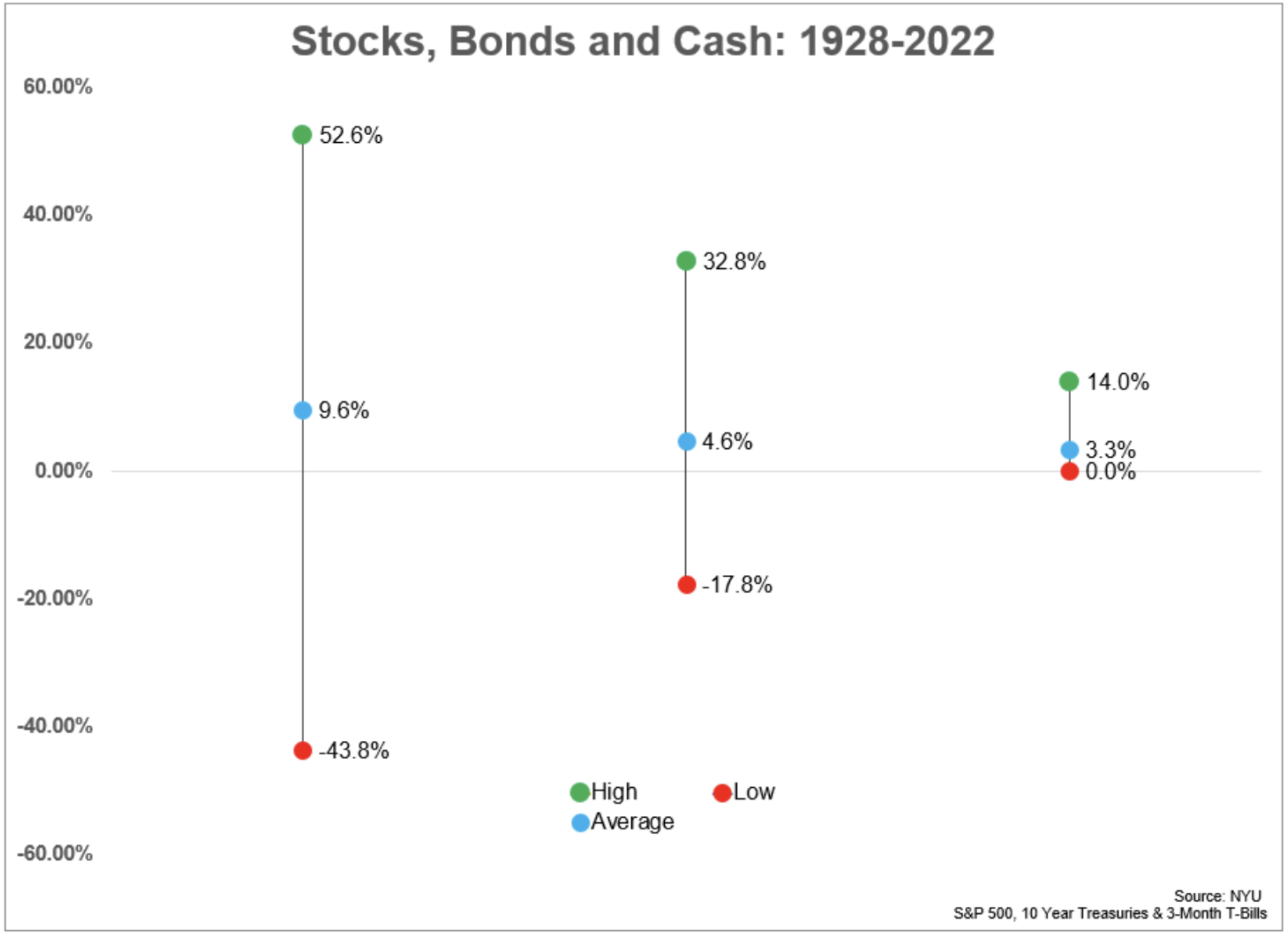
The lesson for investors: The weeds wither away in significance as the flowers bloom. Over time, it takes just a few winners to work wonders. And, yes, it helps to start early and live into your 90s as well.

Historical returns

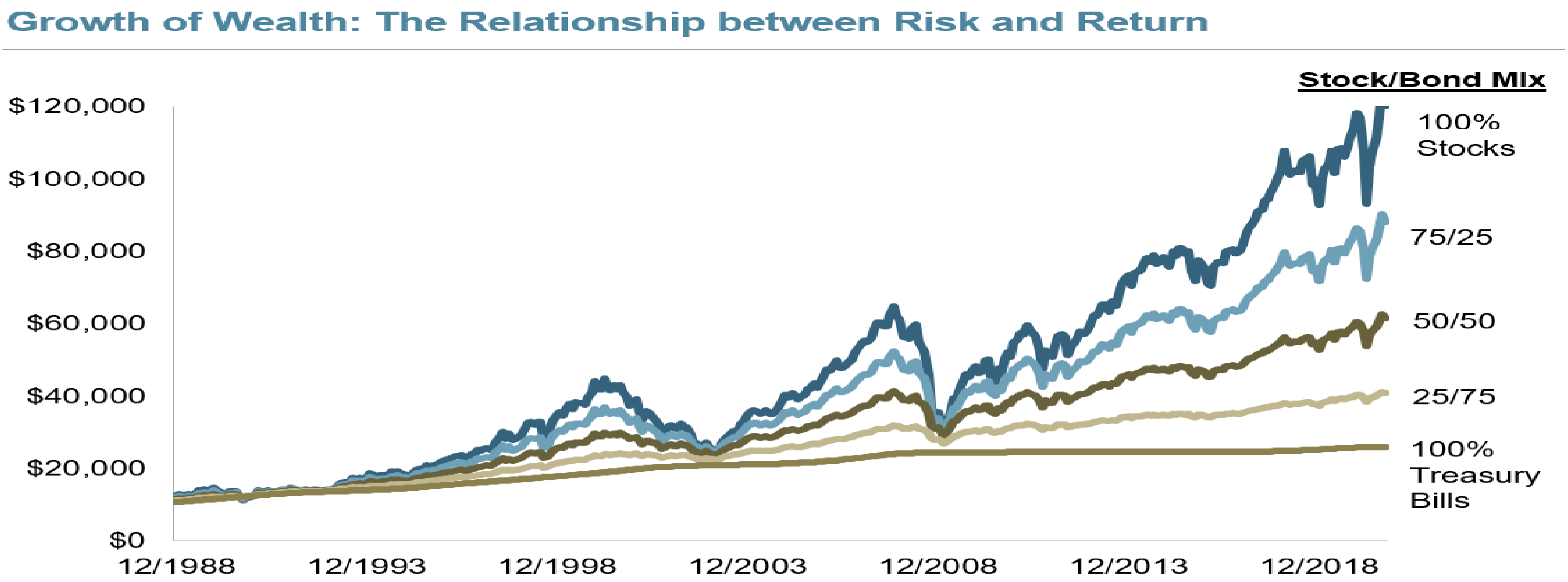




Stocks, bonds, cash



Benefits of Diversification



Investments by risk

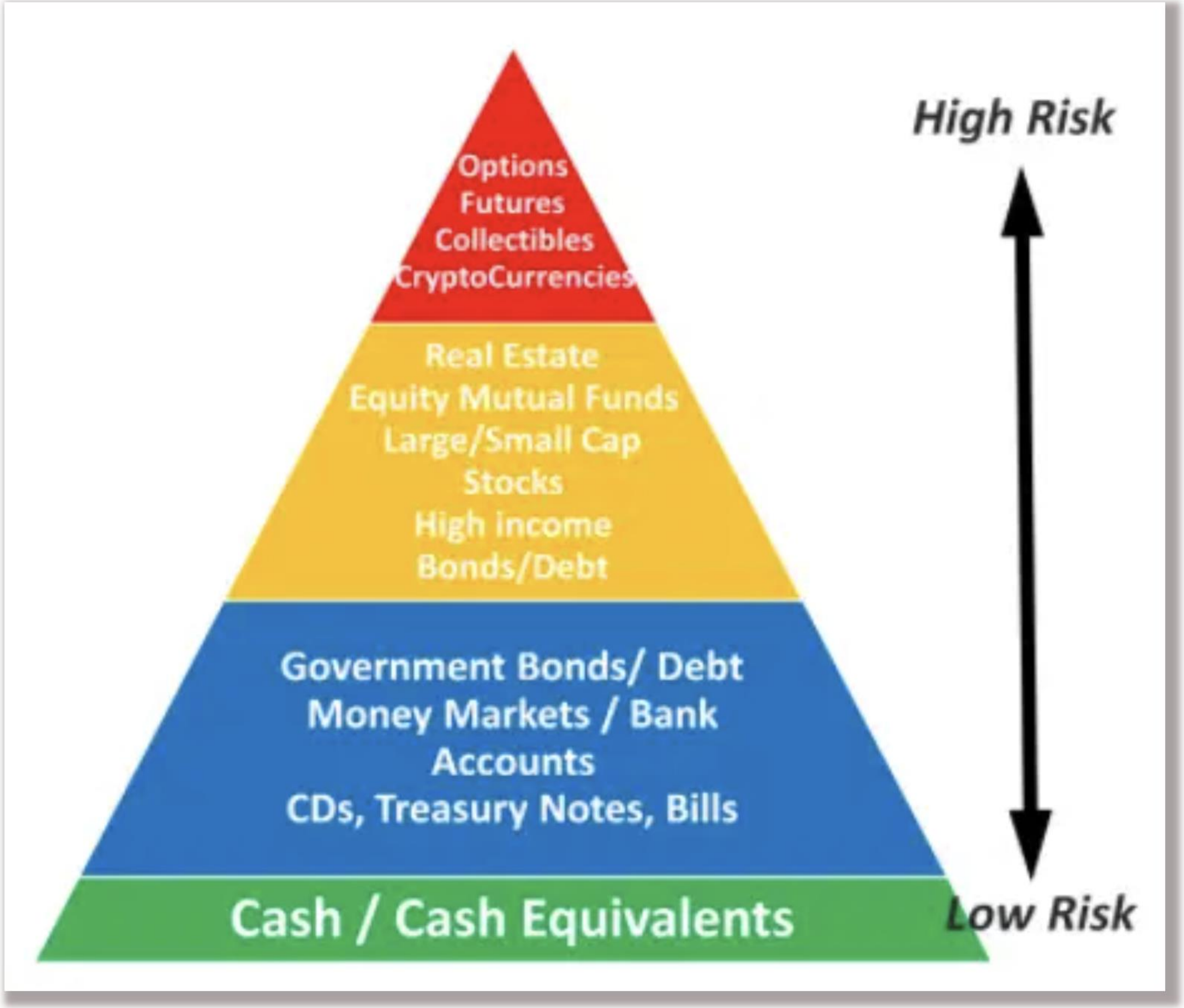


Image courtesy of 3rd30.com

Table 13.1 Alternative Asset Allocations

TABLE 13.1 ALTERNATIVE ASSET ALLOCATIONS

	Allocation Alternative		
Category	Conservative (low return/low risk)	Moderate (average return/average risk)	Aggressive (high return/high risk)
Common stock	15%	30%	40%
Bonds	45%	40%	30%
Foreign securities	5%	15%	25%
Short-term securities	35%	15%	5%
Total portfolio	100%	100%	100%

Why mutual funds?

The Mutual Fund Concept

- Attractions:
  - Portfolio diversification
  - Full time professional management
  - Ability to invest small amounts
  - Service
    - Automatic reinvestment of dividends and capital gains
    - Record keeping for taxes
    - Exchange privileges
  - Convenience
    - Easy to buy and sell
    - Easy to track prices and performance

- Drawbacks:
  - Transaction Costs
    - Management Fee
    - Commission Fees ("sales load")
    - **Expense ratio:** a charge, expressed as a percentage of assets managed by the fund, that fund investors pay each year.
  - Spotty performance record
    - Consistently beating the market is difficult.
    - Many mutual funds just keep even with overall stock market index.

Types of Funds

- **Growth Fund:** objective is capital appreciation.
    - Invest primarily in well-established large- or mid-cap companies with above-average growth potential.
- **Aggressive-Growth Funds:** highly speculative with portfolios of primarily “high-flying” common stocks.
    - Invest in small, unseasoned companies with high price/earnings multiples.
- **Value Funds:** buy stocks with low prices relative to some measure of intrinsic value like earnings or dividends.
    - Less risky investments for relatively conservative investors looking for attractive returns.
- **Equity-income Funds:** purchase stocks with high dividend yields.
    - Focus is on high current income with some long-term capital appreciation. Typically less risk than overall stock market.

- **Bond Funds:** Invest exclusively in various types and grades of bonds, with income as the primary investment objective.
    - Advantages of bond funds over investing directly in bonds:
        - More liquid.
        - Offer higher diversification.
        - Bond funds automatically reinvest interest and other income.
- **Money Market Mutual Funds:** invest in short-term money market instruments, such as bank certificates of deposit, U.S. Treasury bills, and the like.
- **Index Funds:** buys and holds a portfolio of stocks (or bonds) equivalent to those in a specific market index, like the S&P 500.
- **Sector Funds:** investments are restricted to a particular sector or industry. Example: A health care sector fund would focus on stocks issued by drug companies, etc
- **Asset Allocation Funds:** funds that spread investors’ money across different types of asset classes: stocks, bonds, and money market securities. Provides built-in asset allocation by a professional investment manager.
- **Target date fund:** follows an asset allocation plan tied to a specific target date. Asset allocation begins heavy on stocks and shifts to a more conservative allocation emphasizing bonds.

What to do?

- Enroll in 401k plan
  - Company match
- Put in as much as you can
- Choose a target date mutual fund
  - Age based
  - Risk based
  - Set it and forget it
- Over time can move some money out

Questions ????

- Any questions ?
- Any open issues