Activity:

Prepare to Invest - Build Your Plan

This activity is designed to help you take the necessary preparatory steps to get ready to begin investing. Assessing your current knowledge level and making a commitment to complete each step can help you develop a sound investment foundation.

First assess your investment knowledge level by marking where you fall on the scale, and decide how much knowledge you wish to gain in the next year and on which topics. Then read each of the steps that follow and check the box if you can make a commitment to complete that step.

General Financial Knowledge

My current general financial knowledge is at this level:

○ 1 ○ 2 ○ 3 ○ 4 ○ 5 ○ 6 ○ 7 ○ 8 ○ 9 ○ 10

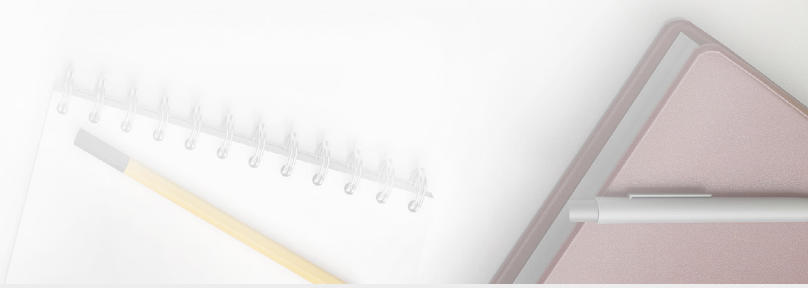
Low High

In one year, my financial knowledge will be at this level:

○ 1 ○ 2 ○ 3 ○ 4 ○ 5 ○ 6 ○ 7 ○ 8 ○ 9 ○ 10

Low High

To accomplish this increase in knowledge, I will dedicate ________ hours a week learning more about the following finance and investing topics:



Trusted Team

The financial advisor team members I will need over the next few years include:

- [ ] Contact at Financial Institution
- [ ] Financial Mentor
- [ ] Tax Planner
- [ ] Insurance Agent
- [ ] College Planner
- [ ] Attorney
- [ ] Realtor & Mortgage Broker
- [ ] Financial Advisor
- [ ] I will have a trusted team in place of the advisors I expect to need by _______________.

Always research the background of the professional you select. Financial professionals must be licensed to provide advice, and you can review their backgrounds on the FINRA website or on the SEC's website:

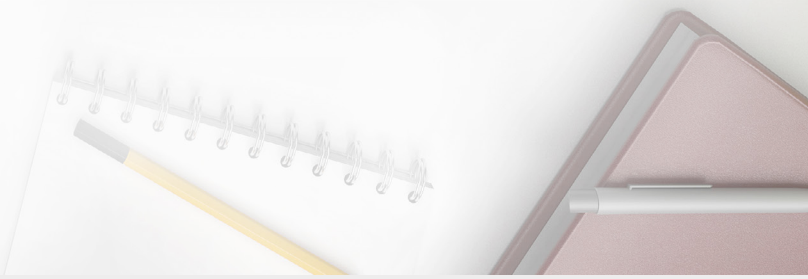
Visit: FINRA

https://brokercheck.finra.org

Visit: SEC

https://www.investor.gov

Most countries other than the US have online background check tools for financial professionals that you can use. Other professionals, such as attorneys and insurance agents, are also required to be licensed and you should be able to conduct a background check on them as well. If you can't locate the information you're looking for, a reputable professional should provide that information to you or show you where to find it.



Personal Financial Plan

Creating your personal financial plan starts with writing down your lifestyle goals.

Take some time to think about some of your dreams and needs for the next few decades.

Examples of lifestyle goals:

- Comfortable retirement
- Time to spend with family or friends
- Being able to travel the world
- Paying off debt
- Ability to work at a job that aligns with your passions
- Being able to give back to the community
- Buying a big-ticket item, like a dream home or car
- Experiencing fun activities

Check the box below if you are willing to make a commitment to writing down your long-term lifestyle goals for the future.

☐ I will write down my lifestyle goals for the next 20-30 years.

Emergency Savings & Risk Capital

It's important to know where your available monies are held in case your investment doesn't work out as you planned. With some investments you can lose more than the original amount you put in, so knowing how and where you can access funds is important.

Emergency Savings. This is liquid money readily available (cash, checking accounts, savings accounts, and other funds you can access immediately). Set a goal to have at least six months of your expenses set aside, or enough to pay your essential expenses for the amount of time it would take you to replace your income source.

Short-term Savings. Making sure you have monies set aside for shorter-term purchases you may need to make is important to consider before investing. For example: if you have a college expense coming up in a year and you need those funds, you could consider a shorter-term investment with little risk of loss.

Long-term Savings / Risk Capital. Risk capital refers to the money you can afford to lose without putting yourself into dangerous financial circumstances. Risk capital does not include your emergency fund.

Emergency Savings

I currently have __________ months' worth of expenses in emergency savings.

To feel comfortable in the case of major financial downturn or reduction of income source, I will have __________ months of emergency money saved by _____________.

To reach this goal, I need to save ________________ per month starting now.

Risk Capital

I will start to save risk capital. Risk capital is money that I can invest without risking dangerous financial circumstances.

I will have ________________ [dollar amount] in risk capital saved by _________________.

To do this, I need to save _________________ per month starting once my emergency saving accounts are fully funded.

Minimize High Interest Rate Debt

Once you build up your emergency fund, you may want to continue to pay down your debt at an accelerated rate. If your expected return on an investment is higher than the interest rate on your debt, you may want to consider the option of investing. But it's always important to remember there is risk involved with investing and nothing is ever guaranteed. Take risk into consideration when deciding whether to pay off debt or invest. Consider these examples:

Example 1: A person has $15,000 in credit card debt with an average interest rate of 15%. He has an opportunity to invest in a mutual fund he thinks will earn 6% to 8% based on the fund's history. However, he does risk losing his investment money. In this example, he would be better off paying off his credit card debt.

Example 2: A person has $20,000 in credit card debt with 0% interest for 1 year. She has an opportunity to get a 1-year Certificate of Deposit (CD) that will earn 1.5% by the end of the year. CDs are guaranteed by the Federal Deposit Insurance Corporation (FDIC), so there is little risk that she could lose money. In this example, she may consider investing in the CD.

Check the box below if you commit to implementing a debt payoff plan.

☐ Using a debt payoff calculator, I will have paid off my high-interest debt by _______________.

Savings Rate for Ongoing Investments

Once you've decided to take the plunge and begin investing, it's important to be able to add funds to your investments over time. Doing so can help you reduce your risk and get into position to capitalize on opportunities.

Calculating your savings rate can help you understand your level of financial wellness. Measuring these ratios on a regularly scheduled basis (semi-annually or annually) will show you how your finances are trending.

Your savings ratio and savings rate are calculated by taking the sum of your expenses divided by the sum of your net income (all income after taxes and deductions) for a given time frame.

Savings Ratio Calculation: Average of last 3 months' gross monthly income / 3-month average of total monthly outflows.

Write down or type into Notepad on your computer the following numbers:

- Total of all expenses (or an estimate of expenses) for the last three months
- Your net income – income after taxes (or an estimate of income) from the same three months

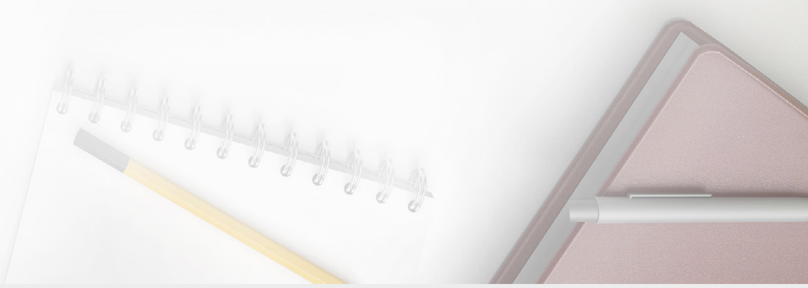
Then, on a calculator:

1. Enter your expense number into the calculator
2. Click the divide "÷" or "/" button
3. Enter your gross income number into the calculator
4. Click the equal "=" button

The number that is displayed is your savings ratio. The lower the number, the better your ratio.

Example: Gross income $9,000 total over 3 months / 3-month average expenses $8,000 = .89 Savings Ratio (=11% Savings Rate)

The lower your savings ratio (or the higher your savings rate), the better able you will be to add money to your investments over time. This ability will help reduce risk by allowing you to diversify your investments and put more funds into higher-yield opportunities.



Savings Rate/Ratio

$$= \frac{\text{Monthly Expenses}}{\text{Monthly Net Income}}$$

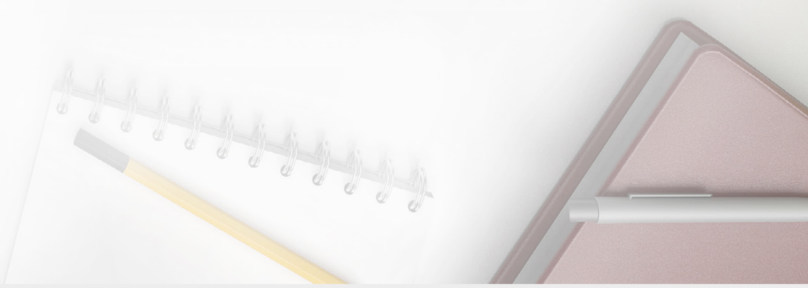
Example

$$0.88 = \frac{\$\ 3{,}500}{\$\ 4{,}000}$$

1.1	1.0	0.9	0.9	0.7
Critical	Priority	Important	Planning	Maintenance

Check the box below if you are willing to make a commitment to calculate your current savings ratio and make a plan to increase your savings.

☐ I will calculate my savings ratio and have a plan to increase my savings.



Due Diligence

"Due diligence" means educating yourself about and researching the investment you're considering and doing your homework before committing your hard-earned money.

There are several methods of conducting due diligence when researching investments. Common examples include:

- Company capitalization – how big the company is and how much of the market it serves
- Revenue, profit, and margin trends – the revenue, net income, and margin trends of the investment; found on a financial news site or app (e.g. Yahoo! Finance or CNBC)
- Competitors – trends of the investment's major competitors
- Valuation multiples – valuation measures including price to earnings (P/E), price/earnings to growth (PEG), price-to-book (P/B), and enterprise multiple ratios
- Management and share ownership – who runs the company: is it the original founders, or a lot of new faces? Who owns most of the shares?
- Balance sheets – the company's balance sheets indicate the assets, liabilities, and long-term debt of the investment
- Stock price history – whether movement in stock price has been choppy, or steady and even
- Stock options and dilution possibilities – how the share price might fluctuate under different circumstances
- Expectations – the consensus on revenue and profit estimates for the investment over the next few years
- Risks – the potential risks faced by the investment including risks that are industry-wide, company-specific, legal, ecological, etc.

IMPORTANT: No amount of due diligence can ever shield you from all investment risks. Your own research helps reduce some risk based on your own assessments of an investment and the market as a whole. But all investments represent risk that can never be brought to zero.

Check the box below if you can commit to performing due diligence on every specific investment or company in which you consider investing. This includes risk potential, return potential, tax implications, market conditions, and specific knowledge of the investment you are making.

☐ I will conduct due diligence on every investment I make.

Exit Plans

When making any investment decision, short- or long-term, it's crucial to plan exit strategies for either side of the equation – whether you've made a profit or lost money. Then it's important to stick diligently to your exit strategy. For example, if you've made an investment that shows a profit, you might have a plan in place to liquidate the investment at a certain margin. Or if an investment loses money, you might want to set a predetermined maximum loss you're willing to accept, and sell the stock or move the money into another investment at that point. The important thing is to adhere to your exit plan to avoid as much risk as possible.

Exit strategies also help you overcome your emotions regarding investment decisions. For example, in the case where your investment is showing a good profit, greed might tempt you to leave the money there even after it reaches your target, hoping for even bigger gains. Not sticking to your exit plan could cause your winning investment to turn into a losing investment.

Check the box below if you're willing to make a commitment to having an exit strategy for every investment you make.

☐ I will have a detailed Exit Plan in place prior to making any investment.