First steps for investing

By Alegra Howard

S aving money is essential—for emergencies and unexpected life events, like an auto break-down, and for long-term goals like buying a new car or a home. But at some point you may want your savings to earn a better return than is possible in a simple savings account. That’s when to consider investing.

Investing means putting your money into something that offers potential profits (such as stocks, bonds or real estate). When you sell an investment, you hope your initial deposit has grown and you come away with more than you put in. In contrast, saving means putting the poten- tial to earn more money than sav- ings accounts offer, but with greater profits comes a greater risk that you could lose some or all of the money you invest (your principal). Investments are not insured against loss in the way most savings accounts are.

When you are ready to invest, you’ll want to gauge the level of risk you’re comfortable with given the expected returns (risk/reward ratio). Are you willing to invest some of your funds in stocks (shares in a business) that could earn you a higher rate of return if the company is successful? Or are you seeking a safer invest- ment that is less volatile and more likely to offer a smaller but steady benefit over time (such as money market mutual funds or bonds)?

It’s a good idea to invest money that you won’t need for some time (five years or longer) to give your investment time to grow and earn a solid return despite short-term ups and downs in the market. When deciding where to invest your money, consider your goals. Are you investing to fund your children’s college education, a downpayment for a home or your retirement? How many years do you have to invest before you’d like to tap into your accounts? If you know that you have 10 or 20 years to in- vest, you may be willing to take on greater risk to achieve a potentially greater return. Knowing your goals can help you choose the best invest- ments for your needs.

Retirement accounts
If you have the opportunity to invest some money in a 401(k), 403(b) or similar tax-deferred em- ployer-sponsored plan, do it! These are long-term investments intended to be withdrawn during retirement, when your withdrawal becomes taxable income. Many employers offer to match a portion of your ac- count contribution, which increases the money you are putting away. For example, if your employer match the first $1,000 you invest from your own pocket with $1,000 in tax-deferred funds—above and beyond any employer offers a “matching plan,” but if one’s available and you don’t contribute, you are missing out on a prime investment opportunity.

Know the costs
Before you choose where to invest and what investments to buy, learn how much you can expect to earn and how much you should expect to spend obtaining and maintaining those investments. Investments typi- cally carry direct costs through fees and commissions, and, depending on the type of investment, the costs vary widely.

Understanding and managing investing costs

By Monica Steinich

I f you’re going to invest, it’s going to cost you, but there are ways to avoid undue costs. Armed with the answers to “how” and “how much,” you should be prepared to choose the investment options that fit your needs and your budget.

Advisory fees
For those who prefer personal investment advice, there are invest- ment or financial advisers, who get paid to, among other things, counsel clients on investing in stocks, bonds and mutual funds.

Investment advisers earn money through fees (“fee-only”), com- missions or a combination of both (“fee-based”). In a fee-only arrange- ment, the adviser would charge an hourly rate, a flat rate or, most commonly, a percentage of the portfolio value managed on your behalf (“assets under management”). Usually, the larger the portfolio, the lower the annual fee percentage. For example, an adviser might charge a 1.25 percent fee on portfolios up to $250,000 and a 1 percent fee on ac- counts with $250,000 to $1 million in assets.

The advantage of a fee-only ar- rangement is that you do not have to worry that the adviser is buying and selling investments in your account just to generate a commis- sion (churning), though you may still be charged trading fees when your asset manager buys or sells securities on your behalf. In the case of an assets-under-management ar- rangement, the adviser makes more money the better your portfolio does, providing an incentive to achieve growth and minimize losses. The disadvantage is that the fees can be hefty and come directly out of your pocket. (Depending on your income and tax situation, investment advisory fees may be deduct- ible on your tax return. Check with “Investing costs” continues on page 2

Investing pitfalls

A ll investments carry some degree of risk that you could lose money—and you don’t have to be a novice inves- tor to encounter pitfalls. There are costly consequences to investing in the wrong finan- cial products or acting on bad advice in an attempt to “get rich quick.”


Know your investment professionals

By Alegra Howard

R eady to grow your savings to extend into your retirement and beyond? If you’re think- ing of hiring a professional to help guide your investment plans, first know the players—good and bad.

Brokers
A brokerage company, otherwise known as a “middleman,” completes financial trades, or transactions, be- tween buyers and sellers and charges fees and/or commissions for its services. The employees who conduct the trades are called brokers.

There are several types of broker- age firms, including full-service, discount, online, captive and inde- pendent. Full-service, or traditional, broker- ages offer an array of hands-on, personalized financial services, including fund management, estate planning and tax advice, and usually charge the heftiest commissions and fees for actively managing your investment portfolio.

Discount brokerages typically save investors money by using computer- ized or online trading systems and providing limited investing advice and service—mostly online or over the phone.

Online brokerages support online trading only—offering even less costly, but generally more limited, support for your investment trans- actions.

Captive brokerages usually are affiliated with or own a part of a specific mutual fund company and primarily recommend those mutual funds to investors.

Independent brokerages operate more like a full-service brokerage by recommending financial products that might better align with the investor’s objectives.

To compare some online broker- age costs, see NerdWallet’s 2017 guide to “Best Online Brokerage for "Professionals" continues on page 4
Firms fight fiduciary rule

By Alegria Howard

For decades, financial services providers have been blurring the line between providing personal financial advice and selling financial products for profit, leading to investor confusion and costly conflicts of interest.

A wave of industry change began after the 2008 financial crisis, when the Dodd-Frank financial reform law gave the Securities and Exchange Commission (SEC) authority to require brokers to follow a more rigorous duty of care—a fiduciary standard—when providing investment advice. This stricter standard has yet to materialize across the board, investors seeking financial advice for their retirement funds are not protected—for now.

The Department of Labor (DOL) Conflict of Interest Rule requires that financial professionals offering retirement planning advice to retirement account holders must operate under a fiduciary standard of care. Put simply, this means that financial advisers and brokers must act in their clients’ best interests, not based on their own profit motives.

Prior to the fiduciary rule, advisers could make retirement investment strategy recommendations that were not necessarily in their clients’ interests and may have yielded huge commissions and fees—incents that were not always disclosed when the advice was given. Costs of interest in retirement advice cost America's families an estimated $17 billion a year, according to a 2015 report by the Consumer Federation of America, based on the Consumer Council of Economic Advisers.

Fiduciary duty v. suitability

Today, the financial professional you hire to help you invest for retirement is obligated by law to put your needs first when making financial recommendations, and must avoid and disclose any potential conflicts of interest, such as incentives to push one investment over another. The fiduciary duty applies to advice on 401(k) plans, IRAs, mutual funds, annuities and certain life insurance policies.

Before the “best interest” rule, stock brokers and insurance agents were generally held to a “suitability” standard, meaning their recommendations depended on the clients’ financial goals without regard to the cost of the product. Now any adviser offering retirement advice must meet the new fiduciary standard.

For all non-retirement accounts, the old rules still apply. Investment advisers are bound to a fiduciary standard of care, as defined as part of the Investment Advisers Act of 1940. Stock brokers, broker-dealers, insurance agents and others who provide non-retirement investment advice may only have to fulfill a suitability obligation. (Learn more: https://www.finra.org/industry/invest- ment-advisers).

If you’re not sure whether your hired professional is held to the fiduciary standard, you or a friend can ask how they are compensated and how much they will earn on each investment they recommend. (You can use BrokerCheck (https://brokercheck.finra.org) to deter- mine whether a person or firm is registered, as required by law, to sell stocks, bonds, mutual funds and some other investments, offer investment advice, or both.)

For most of us, the best interest rule seems like a no-brainer. In fact, you may be surprised to learn that advisers weren’t always held to this standard of care. Many financial services firms have threatened to drop smaller investors—automated investment advice based on mathematical rules or al- gorithms. Because computers, rather than people, do the work, these services charge a fraction of the cost of a human investment adviser. In some cases, advisers will charge you a percentage of your account on an annual basis.

To get an idea of where to find a robo-advisor and what it would cost, check out NerdWallet’s “Best Robo-Advisors: 2017 Top Picks” (https://nerdwallet.com/wealth/robo-advising/best-robo-advisors/). There are pros and cons to automating your retirement advice, so don’t base your decision to use a robo-advisor on cost alone.

Brokerage fees

Before online trading existed, the assistance of a stock broker—and his or her fees—was unavoidable. Today, investors who have internet access and a brokerage account can make market trades. That doesn’t mean that all fees have disappeared, but they can be mini- mized.

When starting out, look for an account that has no annual account fees or commissions for the first few trades, and that will allow you to make many trades, avoid ac- counts that charge an inactivity fee. Fees on trades typically run $5 to $10 per transaction, though a few brokers offer commission-free trades (for example, $0.01/share traded). However, trade fees might be waived in some cases. For example, if you purchase your brokerage firm’s own funds or its commission-free exchange traded funds (ETFs), it will not cost you to trade the fee. ETFs are mutual funds that match or track a market index and are traded like individual stocks on the stock exchange. In some cases, selling a commission-free ETF prematurely—sometimes within 30 days—could trigger a penalty fee.

Fees vary widely even among brokers—motions that grant new customers a certain number of free trades. Others offer free or discounted trades to high-volume, high-cost account balances. While firms like Robin- hood and Loyal3 offer completely free trades, these services are prob- ably more appropriate for busy, market-savvy traders.

Visit the “fees” page of the broker- age firm’s website before you open an account, or look at an example, includ- ing TheStreet (https://www.thestreer- com/online-trading/compare-best).

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Investing costs
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online-brokers.html, compare online brokerage fees.

Mutual fund fees
Last year 94 million individual investors owned mutual funds, ac- cording to the Investment Com- pany Institute. Many of these pools of funds invested in stocks, bonds and other assets that offer diversification with professional management. But mutual fund investing isn’t free, so compare fees and expenses before diving in. Here are the most common fees, which can be found in the fund’s mandatory public dis- closure form called a “prospectus”:

Load: This is a sales charge or commission to purchase (front- end load) or sell (back-end load) shares in a fund. However, there are many excellent “no-load” funds that don’t charge a fee to buy or redeem shares. In fact, many managers believe that individual investors should avoid load funds entirely.

12b-1: The 12b-1 fee covers the costs of marketing the fund’s sales and some shareholder service. It is capped at 1 percent of the fund’s net assets per year. But, like the “load,” this fee is avoidable (about 30 percent of mutual funds don’t charge 12b-1 fees).

Management fees: The largest fee—the management fee to run the fund—is unavoidable, but can vary widely. To minimize your cost, you can invest in index funds, which hold portfolios that match a major index, such as the Standard & Poor’s (S&P) 500. Because the index fund manager is not required to research and select individual stocks (passive management), costs are significantly lower than those on actively man- aged funds.

Generally, there is less risk of los- ing your principal, but lower poten- tial earnings, with index funds than actively managed funds. However, many index funds offer higher returns than actively managed funds each year. Warren Buffett, known as perhaps the most successful investor of all time, has said that investors will do better with index funds, which are diversified across a large number of similar companies, than actively managed funds. Instead, index funds track an index, such as the Standard & Poor’s 500 (S&P 500).

Fees (including 12b-1 fees) can now be as low as $100. If you work with a broker, or in- vest in mutual funds, you’ll receive a 1099-B tax form to report your capital gains and losses (including 12b-1 fees) for tax purposes. If you work with a broker, or in- vest in mutual funds, you’ll receive a 1099-B tax form to report your capital gains and losses (including 12b-1 fees) for tax purposes. If you work with a broker, or invest in mutual funds, you’ll receive a 1099-B tax form to report your capital gains and losses (including 12b-1 fees) for tax purposes. If you work with a broker, or invest in mutual funds, you’ll receive a 1099-B tax form to report your capital gains and losses (including 12b-1 fees) for tax purposes. If you work with a broker, or invest in mutual funds, you’ll receive a 1099-B tax form to report your capital gains and losses (including 12b-1 fees) for tax purposes.
**Investment trouble? Some places to turn to**

Problems with a broker or brokerage firm to FINRA, the Financial Industry Regulatory Authority.

You can file a complaint if you suspect fraud or any suspicious activity related to buying or selling investments: http://www.finra.org/investors/investor-complaints-center or call 240-586-HELP (240-586-4357).

FINRA also offers a Special Helpline for seniors at 844-57-HELPS (844-574-3577) and a Financial Education program offering both arbitration and mediation: http://www.finra.org/ arbitration-and-mediation.


**Investment guides & tools**

Now that we’ve laid out some of the basics of investing, here are some resources to help you to put wise investing principles into practice.

The Bogleheads’ Guide to Invest-

ging gets rave reviews for offering clear, practical, no-nonsense financial advice based on the principles of John Bogle, founder of the highly successful mutual fund firm Van-

guard. This guide (buy at Amazon.com: http://amzn.to/2wR6y5V) is the starter kit for safe investing. It explains the whys and hows of investing in simple terms, teaching you how to know your interests and your goals. This guide covers the full life cycle of financial planning, from your current financial situation to considering your financial situation in the future. The Bogleheads.org (http://www.bogleheads.org) is the website for the Bogleheads’ movement and a great resource for additional information and tools.

The Motley Fool Guide to Invest-

ing for Beginners (free download: http://the.fool.com/guides/2016/beginner/) is an easy-to-understand and filled with solid investment principles. Motley Fool says: “The secret to great in-

vesting is not a high IQ, or superb market timing. It’s self-control.” Its guidelines recommend thinking of investing as “saving some of your money on a vacation,” while the rest of your funds take care of your regular bills and expenses. Investors are advised to buy and hold invest-

ments for the long term.

The New York Times: “Before you pay for financial advice, read this guide” (http://nyti.ms/2hUx5XM) describes the differ-

ent types of financial advisers and emphasizes the importance of work-

ing only with advisers who commit to a fiduciary standard of care (put-

ting your best interests first). It links to 21 questions to ask a financial adviser or broker before investing. It prompts questions about investment fees, commissions and benefits, and includes a template for the fiduciary pledge that you can ask an adviser to sign before you agree to pay for any financial services.

FINRA Fund Analyzer (http:// bit.ly/2Zrk5s1) is a free tool to help more experienced investors compare and evaluate mutual fund investment options. It has informa-

tion on more than 18,000 funds. The Analyzer was developed by the Financial Industry Regula-

tory Authority (FINRA), a non-govern-

ment regulator, contact the North American Securities Administrators Association (NASAA) (http://www. nasaa.org/about-us/contact-us/contact-your-regulator/).

Insurance companies

Some people invest in life insur-

ance policies as part of their retirement plan. A permanent, or whole, life insurance policy can supplement retirement savings by accumulating cash value and paying out during retirement. If you’re considering purchasing annuities and life insurance as part of your investment plan, consider getting a second—even a third—opinion from professionals who you are confident have your best interest in mind. Never rely solely on in-

formation you receive during a free “informational” meeting; because this is the way many deceptive products are sold to naive investors.

**Do your due diligence**

It’s worth doing some research to avoid purchasing fraudulent investments. Federal and state securities laws require brokers, investment advisers and their firms to be licensed or registered and to make important information available to the public for free, including an adviser’s education and previ-

ous employment, and whether any disciplinary action has been taken against a firm or adviser by the gov-

ernment for unethical or improper conduct.

Dependent on the value of the assets being managed, investment advisers and firms have to register with either the SEC or the state se-

curities regulator, contact the North American Securities Administrators Association (NASAA) (http://www. nasaa.org/about-us/contact-us/contact-your-regulator/).

The Financial Industry Regulatory Authority (FINRA) is a non-govern-

mental organization that regulates member brokerage firms, provides investor education and protection, and disciplines brokers who break the rules.

**Brokersage firms**

Information about brokerage firms and investment advisers can be obtained through FINRA’s BrokerCheck program (https://brokercheck.finra.org) or SEC’s Investor Protection Program (http://sec.edgar注册.html) or if brokers are properly licensed, had disciplinary problems or have received serious complaints from investors.

Details on investment firms and individual advisers’ qualifications are also available on the SEC’s Investment Adviser Public Disclo-

sure website (http://puborgh.com/or 800-289-9999). You can find out if brokers are properly licensed, had had disciplinary problems or have received serious complaints from investors.

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Make sure the insurance agent and insurer are licensed in your state by contacting your state’s insurance department (http://www. naic.org/state_web_map.htm). You can also check the Better Business Bureau’s website (https://www.bbb.org) for complaints about insurance companies or brokers.

Remember, it’s up to you to protect your investment dollars by checking that the professionals you hire are legitimate and will prioritize your financial health over their own.