Questions You Were Afraid to Ask

223 E. Blackstock Road
Spartanburg, SC 29301
p. 864 582 7766
1-800-277-0025
asknoel@theprovestperspective.com
www.TheProvestPerspective.com
www.ProVestWealth.com

Most people have probably heard the phrase, “The only bad question is the one left unasked.” But, when it comes to your finances, there’s no such thing as a bad question!

At some point, everyone has a question that they keep to themselves. Maybe it’s because they’re afraid the question is so basic it would be embarrassing to ask. Maybe it’s because they feel they should know the answer already and don’t want to look ignorant.

This report will hopefully answer some questions you may have had, but have been afraid to ask.

Question #1. What’s the Difference Between the Dow, S&P 500, and NASDAQ?

You hear these terms every day when you turn on the news – ‘The Dow closed at 31,000 today’. Or ‘The S&P closed at 3900’. Or ‘The NASDAQ rose 1.6% as tech shares…..’ You know that all those terms refer to “the stock market.” But what, exactly, do they mean? Why is the Dow always so much higher than the S&P? Does that mean it’s better? And what makes the NASDAQ different from the others? The good news is that the answers to these questions are really quite simple. We just need to define some terms! The Dow, S&P 500, and NASDAQ Composite are all indexes. An index tracks the performance of a group of securities, like bonds or – in this case – stocks. Indexes are handy tools because they enable investors to compare current price levels for different segments of the market with past ones, so they can measure performance over time. Some indexes track extremely narrow segments of the market, like companies of a specific size or sector. Others are much broader. What makes the Dow, S&P 500, and NASDAQ different from another is what each index measures.

So, let's take each one at a time.

1. The Dow Jones Industrial Average: This index tracks the performance of 30 of the most prominent companies listed on stock exchanges in America. (Think companies like Apple, Coca Cola, and Walmart.) Because it is so narrow, the Dow isn't always a good indicator of how the overall stock market is doing. But because the companies inside the Dow are so important or well-known, many people have money invested in them. That's why the media pays so much attention to how the Dow is doing.
2. The S&P 500: This index measures 500 of the largest companies listed on American stock exchanges. Now, a quick note: A stock exchange is where traders actually buy and sell stocks. The New York Stock Exchange is the biggest and most famous, but there are many exchanges across the world. Because the S&P 500 tracks so many more companies than the Dow, across a broad range of industries, it is often considered a more reliable snapshot of the overall economy than the Dow.
3. NASDAQ Composite: This index tracks nearly all the stocks listed on the Nasdaq Stock Exchange and is heavily weighted towards technology companies.
4. There are plenty of other indices, too. For example, one of the most important is the…

   Russell 3000: You don't hear about the Russell as much as the previous three, but this index represents nearly the entire U.S. stock market. It includes 3,000 of the country's largest publicly held companies. (There's also the Russell 1000 & the Russell 2000)
5. S&P/TSX Composite: This is the most important index in Canada. It tracks the performance of the 250 largest companies listed on the Toronto Stock Exchange. You can think of it as the Canadian equivalent to the S&P 500.

Question #2. Why is the price of the Dow so much higher than the S&P 500?

Ok. Before answering this, go to your phone or your computer, and open your internet browser and search for “S&P 500.” The first result will show the current price of the index. Make a note of the number. Next, search for “Dow Jones.” I’m sure you notice how much higher it is? As in, tens of thousands of dollars higher. As you know from the last segment, the Dow tracks the performance of 30 of the most prominent companies listed on stock exchanges in America. The S&P 500, meanwhile, measures 500 of the largest companies listed on American stock exchanges. This is why many investors often wonder why the Dow’s total price is so much higher than the S&P, even though the latter contains hundreds more companies. The answer has to do with how these two indices are calculated.

The Dow, for example, is calculated by taking the 30 stocks in the average, adding up their prices, and then dividing the total by the “Dow Divisor.” Early in the Dow’s history, this divisor was simply the number of companies within the average. Today, the divisor is adjusted regularly to factor in changes to the list of companies, stock splits, and other events that could have an impact on the overall average. As of this writing, the Dow Divisor is 0.15172752595384. Because the divisor is less than one means it technically functions as a multiplier so in effect, calculating the Dow’s value essentially means multiplying the sum of each company’s price by roughly 6.5. Every $1 change in price to a particular stock within the Dow equates to a movement of 6.59 points on the Dow. This multiplication effect is partly why the Dow’s value is so much higher than the S&P 500’s. So even though the S&P contains hundreds more companies, its overall price is lower because of how it’s weighted.

In an unweighted index, every company has the same impact on the overall index, no matter its price or how many shares are available. The price of the index is determined by simply adding up every company's stock price, then dividing by the total number of companies in the index. For example, imagine an unweighted index containing only three companies. If Company A went up 15%, Company B went up 10%, and Company C went up 5%, the index itself would be up 10%.

Most indices don't work like this, however. That's because not all companies are equal. Some are worth much more than others or have a much higher volume of shares available to buy or sell. For that reason, a simple mean average is a pretty unnuanced way of looking at the overall index. For this reason, most indices are weighted. This means the average is calculated by putting more importance – or weight – on some numbers than others. It's a more accurate way of looking at data. The S&P is a capitalization-weighted index, and the Dow, by contrast, is a much simpler price-weighted index. That means each company is weighted according to its market capitalization……which is the company's share price multiplied by the number of shares available to buy or sell. As you know, some companies are simply bigger than others. Typically, this means they have more outstanding shares, which means a higher market capitalization and more weight within the S&P 500.

So, what's the result? The price movement of these companies has a much bigger impact on the S&P than that of smaller companies. For these reasons, the divisor that the S&P 500 uses is much higher than for the Dow. In fact, it's currently higher than 8,000. And the equation the S&P uses is much more complex. This is all done to keep the value of the index down to a more manageable level, and to prevent the price movement of a few companies from having an even bigger impact on the overall index than they already do.

Question #3. What's better, stocks or bonds?

So, what is a stock, exactly? And how does it compare to other kinds of investments? Even folks with a lot saved for retirement aren't always sure. MANY Americans build wealth and save for retirement through their employers. Maybe they take advantage of a company 401(k) or are awarded company stock as part of their compensation. Either way, they don't spend much time thinking about their investment options, because it's simply not required in order to start investing. As a result, many Americans may have heard of different investment types, or asset classes as they are also known, without truly knowing how they differ, or what the pros and cons of each type are.

When you purchase a bond, you are essentially loaning money to a company, government, or organization.

When you buy stock, you are purchasing partial ownership in a company.

For this reason, stocks are equity investments while bonds are debt investments.

So, before we answer this question, let's examine each.

1) **How Stocks Work**. When you buy a company's stock, you buy a share in that company. And the more shares you buy, the more of the company you own. Generally speaking, stocks can be held for as short or long a time as you wish, but many experts recommend holding onto your shares for longer-term if you anticipate their value will rise over time. For example, let's say ACME Corporation – which makes roadrunner traps – sells their stock for $50 per share. You invest $5000 into the company, which means you now own 100 shares. Now, fast forward five years. ACME's business has grown, investors like what they see, which consequently puts their stock in higher demand. As a result, the stock price is now $75 per share. Because you own

equity in the company, you benefit from its growth, too – and your investment is now worth $2,500 more, for a total of $7,500.

2) **The Pros and Cons of Investing in Stocks**. Every investment has its strengths and weaknesses, and stocks are no exception. The single biggest benefit to investing in stocks is that, historically, they outperform most types of investments over the long term. Because stocks represent partial ownership in a business, finding a strong company that performs well over the course of years and decades can be a powerful way to save for the future. Additionally, stocks are a fairly liquid investment. That means it can potentially be easier to both buy and sell them whenever you need cash. Many other investment types, like bonds, can be more difficult or costly to sell, in some cases locking you in for the long term. But these pros are just one side of a double-edged sword. You see, with the possibility of a higher return comes added risk. While the stock market has historically risen over the long-term, individual stock prices can be extremely volatile, climbing and falling daily, sometimes dramatically. For example, if a company underperforms relative to its expectations, the stock price can go down. Sometimes, companies can even fail altogether, and it's possible for investors to lose everything they put in. As the saying goes, risk nothing, gain nothing — but it's equally true that if you risk too much, you can leave with less. Furthermore, to actually realize any gains you've made, you must sell your stock, which can trigger a significant tax bill.

3) **How Bonds Work.** Bonds potentially rise in value and might be sold for a profit, but generally speaking, that's not what most investors are looking for. Instead, bondholders are hoping something a bit more predictable: Fixed income in the form of regular interest payments. As previously mentioned, bonds are a

loan from you to a company or government. That loan might last days or years – sometimes even up to 100 years – but when the bond matures, the company pays you back your initial investment. In the meantime, the company typically pays you regular interest, just like you would when you take out a loan. Depending on the type of bond you buy, these payments can be annual, quarterly, or monthly. Interest payments are why investors often look to bonds as a source of income.

4) **The Pros and Cons of Bonds.** Income isn't the only "pro" when it comes to bonds. Bonds tend to be less volatile than stocks. Also, since the company that issued the bond is technically in your debt, you would be among the first in line to get at least some of your money back even if the company enters bankruptcy. That's not the case with stocks. But just because bonds are less volatile doesn't mean they're risk-free. Bonds may rise or fall in face value as interest rates change. Face value is typically calculated by seeing what others would likely be willing to pay to take over that debt from you. So, for example, if you bought a bond in Year 1 only to see interest rates go up in Year 2, the value of your bond will likely fall. That's because you are missing out on the higher interest rate payments you would have had if you bought the bond in Year 2 instead. That's important, because if you wanted to sell your bond before it reached maturity, you would probably have to settle for a lower price than what you initially paid.
5) **Stocks and Bonds Together**. As you can see, stocks and bonds each have different advantages and disadvantages. It's why, for many investors, the answer is, "Why not both?" Far from being competitive, stocks and bonds are actually considered complementary. That's because each brings things to the table the other doesn't. Furthermore, stocks and bonds are what's

known as non-correlated assets. That means they don’t necessarily move in tandem. Which means just because stocks are down doesn’t mean bond values will fall, too. This kind of non-correlated movement is not guaranteed, just as what’s true in the stock market right now.

Questions You Were Afraid to Ask #4: What’s the Difference Between Passively Managed Funds and Actively Managed Funds?

If you’re investing in, say, an IRA, most of the fund choices you’ll see will fall under one of two categories: Passive vs Active. Let’s start with the latter. An actively managed fund is exactly what it sounds like: A fund where a manager takes an active role in selecting which securities to buy or sell, and when. Different managers have varying styles and philosophies. For example, some may specialize in finding companies they believe are undervalued, which means they can be bought at what is believed to be a good price. Others may try to find companies they think are likely to grow by a significant amount. Some managers may specialize in certain industries or market sectors. You get the idea. Either way, with active management, you are paying for one of two things:

1) The possibility that the fund will “outperform” the market. This means the fund could do better over a specified period than a benchmark index – like the S&P 500 – that it measures against.
2) The possibility that the manager will be able to protect you against undue risk or limit losses during times of market volatility. This idea more generally fits the purpose of hedge funds than the standard mutual funds you’ll usually see in your IRA or company 401(k)

The possibility of outperforming the market comes with some tradeoffs, however:

1) Actively-managed funds often come with more – and higher – fees than passively managed funds. That’s because the manager must charge for his or her services.
2) While it’s possible for a manager to outperform, it’s also possible to “underperform.” When that happens, you are essentially paying more for less.

Now, let’s look at passively managed funds. Here, there is no “active” or research-based management decisions to the buying or selling of holdings. Instead, the fund invests in a specifically designed portfolio and then stays put. The fund may “rebalance” at some other set time frame, often quarterly or annually. This is to reset to its original objective or to match its index better. Otherwise, everything is held for the long-term. These days, many passive funds are index funds. This is when the fund’s portfolio is built to try to match a target index, like the S&P 500. So, if you essentially want to replicate a broader stock market, again like the S&P 500, index funds could be the way to go.

Passive funds come with the following advantages:

1) Typically, much lower cost, especially with index funds. Because there’s nobody actively picking stocks, the fund could come with fewer expenses, and thus, lower fees.
2) However, the target index performs, with occasional variances, that’s how you’re likely to perform, too. Given that indices like the S&P 500 have historically risen in value over the longterm, that could make index funds a good option for those who want to invest and forget it for a long period of time.

On the other hand…
There's little chance of outperforming the market. That's an issue if you need more aggressive returns. In addition, index funds come with no specific protection against extreme volatility. Note that when you make your selections in a 401(k) or IRA, you can tell whether a fund is active or passive by reading its summary. It should also be noted that passive vs active doesn't have to be a binary choice. Many investors take advantage of both options in their portfolio! While most funds are either active or passive, there are many types of funds within those two categories.

Questions You Were Afraid to Ask #5: What Differentiates Mutual Funds, Exchange-Traded Funds, and Hedge Funds?

Let's start with mutual funds, one of the oldest and most common ways that people invest. Here's how the Securities and Exchange Commission (SEC) defines mutual funds: A mutual fund is a company that pools money from many investors and invests the money in securities such as stocks, bonds, and short-term debt. The combined holdings of the mutual fund are known as its portfolio. Investors buy shares in mutual funds. Each share represents an investor's part ownership in the fund and the income it generates. As we've already covered, mutual funds can be either actively managed or passively managed. Regardless of which umbrella the fund falls under, though, many investors flock to mutual funds because they offer several potential benefits:

1) Simplification. Mutual funds can simplify the process of investing because instead of devoting time to researching dozens – or even hundreds – of individual companies to invest in, the fund does it for you. (Note, of course, that you or your financial advisor should still research which fund is right for you.)
2) Diversification. Mutual funds often invest in a wide range of companies and industries to meet the funds stated objective. This could lower your overall risk. This means that if one company/industry does poorly, you may not experience the same kind of loss you would if you invested all your money in that company or industry.

There are potential issues with mutual funds, though. For example, sometimes, it can be difficult to understand what or how the fund actually invests (Mutual funds can differ drastically depending on their objectives, investing style, time horizon, and other factors.) Mutual funds are required by law to provide a prospectus to investors that explains how the fund works, but if you don't know what you're looking at, this information may confuse more than enlighten. This is why it's important to do your homework. This is also true for ETFs and hedge funds.

Mutual funds can also sometimes come with more expenses than other funds, too. They might include management fees, purchase fees, redemption fees and tax costs. These expenses can eat into your returns, thereby lowering your overall profit. Finally, mutual funds may not be a great choice if immediate liquidity is a high priority. All mutual fund trades run at the end of day. So, for example, if you wanted to sell a mutual fund at the beginning of the day, hoping to avoid what you think the market will do, you will still get the end of day price.

For this reason, some investors turn instead to…

1) Exchange-Traded Funds ETFs, as they are often called, can be actively managed. More often, however, they track the companies in a specific index, just like an index fund. Otherwise, ETFs differ from mutual funds in a few ways. For one thing, the shares each investor has in an ETF can be traded on the open market. That means you can buy or sell your shares in an ETF just like you would an individual stock. You can't do that with regular mutual- or index funds. That's a big advantage for investors who value flexibility and liquidity. Most ETFs also come with lower expenses than mutual funds. ETFs fully disclose all holdings held. This makes it easier to see exactly what you are investing in. It also makes it easier to see where you have overlap. But of course, nothing's perfect. Since ETFs can be traded like common stock, that might lead to trading too often. You may find yourself paying more than you anticipated in trading fees. Then, too, some ETFs are thinly traded, meaning there's just not a lot of activity between buyers and sellers. This could make it difficult to sell your shares.
2) Hedge Funds Most people will never invest in a hedge fund. They're generally not an option when investing through a 401(k) or IRA. But I include them in our discussion because I sometimes get asked about them – and for good reason! You often hear about hedge funds in the media, and they're the subject of multiple films. While mutual funds and ETFs can be either passive or actively managed, hedge funds are always active. The idea behind hedge funds is that the manager can use all sorts of strategies and tactics to help investors beat the market while "hedging" – hence the name – against risk. Hedge funds often invest in non-traditional assets beyond stocks and bonds, too. The

reason hedge funds are not an option for most investors is because of the huge cost associated with them. Legally, to invest directly in a hedge fund you must be an accredited investor. Meaning, you must have a net worth of at least $1 million or an annual income over $200,000 to invest in one. Plus, you must be willing to stomach paying all sorts of fees that are much higher than your average mutual fund. For these reasons, while hedge funds may be right for some people, they're simply not necessary for the average investor to save for retirement or reach their financial goals.

Questions You Were Afraid to Ask #6: How do I know which investment options are right for me?

There is no one-size-fits-all answer. No single "best" option. Only the one that is best for **you**, based on your wants, your needs, your nature. This might seem like a no-brainer, but it's critical all the same. That's because, as an investor, you will often hear the media say otherwise. You will hear people claim that the Dow is more important than the S&P (or vice versa). That stocks are better than bonds, or bonds are safer than stocks. That passive is better than active (or vice versa), or that ETFs are always better than mutual funds (or vice versa). As we've seen, the truth just isn't that simple.

Now, I have six questions for **YOU** to consider the answer to. Six questions you must not be afraid to ask. Questions only you can answer. Those questions are as follows: Who, What, When, Where, Why, and How.

1) Who am I? Are you cautious by nature or a risk-taker? Are you a family-oriented person, or more of a lone wolf? An adventurer or a caretaker? Someone with a few simple wants, or big, bold dreams? Or – as many people tend to be – are you a mixture of all these things?
2) What kind of lifestyle do I want? Simple or extravagant? Always trying new things, or staying in your comfort zone? One focused on work and personal accomplishment, or one focused on family and community? Or again – and I can't stress this too much – a mixture of these things, depending on what stage you're at in life?
3) When will I most need money? Do you need it soon because you're buying a new home or starting a new business? Or do you need it later when you're about to retire?
4) Where do I see myself in ten years? Or twenty? Life is all about change and growth. That means you need to ensure you're investing for long-term growth to reach your long-term goals.
5) Why do I need to invest? To help send your kids to college? To retire? To see the world? To give to charitable causes? To feel like you always have a safety net?
6) How will I pay for retirement? This is key. Because, regardless of your other goals, there's probably going to come a time when you want to stop working. But you can't just pick a day to not show up at work. Retirement creates a massive lifestyle change, one that will be quite upsetting to your finances if you don't prepare for it.

Questions You Were Afraid to Ask #7: What's the difference between all of these types of bonds

As we said earlier, when you buy a bond, you are lending money to the issuer – generally a company or government. In return, the issuer promises to pay you a specified rate of interest on a regular basis, and then repays the principal when the bond matures after a set period of time.

As you know, the markets had a very up-and-down year in 2022. Whenever this happens, many investors start showing renewed interest in bonds, because they tend to be less volatile than stocks. With the rising interest rates, this interest continued in 2023.

So, there are several types of bonds to choose from, each with different characteristics. All those options can be confusing, so I will give you a brief overview of the main types that investors have to choose from.

Let's start with:

1) Corporate Bonds

Corporate bonds are issued by both public and private corporations. Companies use the proceeds of these bonds to buy new equipment, invest in new research, and expand into new markets, among other reasons. These bonds are usually evaluated by credit rating agencies based on the risk of the company defaulting on its debt.

Corporate bonds can be broken down into two sub-categories:

Investment-grade, and High-Yield.

- Investment-grade bonds come with a higher credit rating, implying less risk for the lender. They're also considered more likely to make interest payments on time than non-investment grade bonds.

- High-yield bonds have a lower credit rating, implying higher risk for the investor. These are typically issued by companies that already have more debt to repay than the average business or are contending with financial issues. Newer companies may also issue high-yield bonds, because they simply don't have the track record yet to garner a high credit rating. In return for this added risk, high-yield bonds typically pay higher interest rates than investment-grade bonds.

2) Muni-Bonds

Municipal bonds, or "muni bonds", are issued by states, cities, counties, and other government entities so that entity can raise funds. Sometimes these funds are to pay for daily operations like maintaining roads, sewers, and other public services. Sometimes the funds are to finance a new project, like the building of a new school or highway. Muni-bonds can also be broken down into two sub-categories:

Revenue bonds, and general-obligation bonds.

- Revenue bonds are backed by the revenues from a specific project, such as highway tolls.
- General Obligation bonds are not secured by any asset, but are instead backed by the "full faith and credit" of the issuer, which has the power to tax residents in order to pay bondholders, should that ever be necessary.

In other respects, muni-bonds work similarly to corporate bonds in that the holder receives regular interest payments and the return of their original investment.

But muni bonds do come with one additional advantage, in that the interest on a muni-bond is exempt from federal income tax. It may also be exempt from state and/or local taxes if the holder resides in the community where the bond is issued. However, munibonds often pay lower interest rates than corporate bonds do.

3) U.S. Treasuries

Treasury bonds are the type of bonds you usually hear about in the news. As the name suggests, these are issued by the U.S. Department of Treasury on behalf of the federal government. They carry the full faith and credit of the government, which has historically made them a very stable and popular investment. In fact, U.S. treasuries tend to be so stable that economists often use them as a bellwether for the overall health of the entire economy.

There are several types of U.S. Treasury bonds.

- Treasury Bills are short-term bonds that mature in a few days to 52 weeks.
- Treasury Notes are longer-term securities that mature in terms of 2, 3, 5, 7, or 10 years.
- Actual U.S. Treasury Bonds typically mature every 20 or 30 years. Both Notes and Bonds pay interest every six months.
- Finally, we have Treasury-Inflation-Protected Securities, or TIPS. These are notes and bonds whose principal is adjusted based on changes in the Consumer Price Index, which tracks inflation. Interest payments are made every six months and are calculated based on the inflation-adjusted principal. That means if inflation goes up, so too does the principal in the bond...thereby increasing the amount of interest that is paid. However, if inflation goes down, the principal does too, thereby decreasing the interest rate.

Questions You Were Afraid to Ask #8: What do all of these bond terms mean?

One common frustration investors have is dealing with all the terms and jargon used in the financial industry. If you have ever heard two Wall Street types talking, it can be like listening to a bad episode of Star Trek!

Bonds in particular come with a lot of lingo which can be very intimidating for investors. So, let's break down a few common terms you're likely to hear in the media or when thinking about investing in bonds.

As I said earlier, when you buy a bond, you are lending money to an issuer. In return, the issuer promises to pay you a specified rate of interest on a regular basis, and then return the principal when the bond matures. Let's discuss some of the most common terms:

issuer, par value, coupon rate, and maturity.

- Issuer: This is the entity that "issued" the bond to borrow money. Generally, issuers include local and state governments, the U.S. Treasury, and corporations. Whoever it is, it's their responsibility to make interest payments and repay the amount you initially loaned.
- Par Value: This is the amount that must be returned to the investor when the bond matures – essentially, the investor's principal. Note that many bonds are issued at a par value of $1,000, so it it doesn't matter whether the bond matures in 10, 20, or 30 years. Whenever that time is up, the issuer would still pay back the initial par value. You may also occasionally see the term "face value" instead of par.
- Coupon Rate: This is the bond's interest rate, paid by the issuer at specific intervals. For instance, let's say you owned a $1,000 bond with a 5% coupon rate. The issuer would then pay you $50 in

interest each year until maturity. Some bonds pay interest semiannually, so in this case, you would be paid $25 every six months.

You may be wondering how coupon rates are determined. There are two main factors: the amount of time to maturity, and the credit rating of the issuer. Typically, bonds that take longer to mature come with higher rates. After all, investors want compensation for not getting their principal back until later. Conversely, bonds with shorter maturities usually pay lower interest rates.

Furthermore, if the issuer has a low credit rating, they will usually pay higher interest rates to compensate for the additional risk.

So, why is it called a “coupon” rate, you might ask? Well, once upon a time, investors were given actual, physical coupons to redeem to collect their interest payments.

- Maturity: This term is pretty simple. You’ve probably figured it out already. This is the amount of time until the bond is due to be repaid. A 10-year Treasury bond, for instance, matures 10 years from the date it was issued.
- Rating: As I just mentioned, some issuers have higher or lower credit ratings. An issuer rating signifies the bond’s credit quality. Here in the United States, there are three main rating services: Standard & Poor’s, Moody’s Investor Services, and Fitch Ratings Inc. Each agency rates bonds based on the issuer’s potential ability to pay both interest and principal in a timely fashion.
- Price: Hopefully, all these terms have been easy to understand, because here is where things get a little tricky. As you know, bonds can be traded on the open market. For example, let’s say Fred buys a bond, but before it matures, decides to sell it to Fran. The “price” is the amount for which the bond is traded.

Sometimes, bonds trade at their par value, but they don't have to be. For instance, imagine Fred bought his bond for $1000, but trades it to Fran for only $950. The bond's price, then, is $950, and is said to be traded at a discount. On the other hand, if Fred trades it for $1,050, then Fran would be buying it at a premium. So why would a bond's price differ from its par value, you might wonder? Sometimes, this is due to rising or falling interest rates. For example, if interest rates around the country rise above what they were when the bond was issued, that bond would no longer be as valuable.

That's because the old bond's coupon rate would be lower than what an investor could get if they bought a new bond. So if Fred wanted to sell his bond before maturity, he would have to do so at a discount.

Questions You Were Afraid to Ask #9: What are Bond yields and why do they matter?

Financial terminology can be slippery and hard to remember. But keeping all these terms in mind, the definition of a bond's yield is this: The return – or amount – an investor expects to gain until the bond matures. Simple, right? No, not quite. While that may be the definition, the actual ramifications of yield go a bit deeper. To understand this, we first need to understand the most basic way yield is calculated.

A bond's current yield can be found by dividing the bond's annual interest rate payment, coupon rate, by its price.

For example, imagine Fran buys a bond with a 10% coupon rate for its original $1000 price. The bond's yield would be 10%, too. Now imagine that Frank buys that same bond from Fran a year later – but for $75 more. Since the bond is being traded for more than its par value – in this case, $1,075 – the yield would go down to 9.3%. After all, if Frank pays more than Fran for the same level of interest rate, he's getting a lower return on his investment than Fran did, who paid less. However, if the bond trades for less than par – say, $975 – then the yield goes up to 10.25%. In other words, yields and bond prices are inversely related. If the price of a bond goes up, its yield will go down. If the price goes down, the yield goes up.

Essentially, by comparing the current yield of different bonds, you can see which bonds are expected to give more or less of a return on your investment. The higher the yield, the better the expected return. Now, that doesn't mean an investor should just look for bonds with the highest yields and call it a day. That's because high-yield bonds tend to come with more risk than low-yield bonds do. As I said earlier, issuers with lower credit ratings will often pay higher interest rates, since there is some risk they won't be able to repay the principal by the time the bond matures. Investors must always balance risk versus reward when choosing where to put their money, and that holds true for bonds, too. So, that's yield in a nutshell.

Now, you may be wondering, "Why do I hear so much about bond yields in the media?" Well, many analysts and economists use yields to project which direction interest rates will move in the future…and by extension, the overall economy. You see, when interest rates are expected to rise, bond prices tend to go down. That's because an existing bond's coupon rate will no longer be as attractive as that of a new bond, meaning the owner would need to sell the bond at a discount.

And when interest rates are expected to fall, bond prices rise. For that reason, when yields rise across the entire bond market, analysts often see it as a signal that interest rates may rise soon, too. And when the yield on short-term bonds rises above that of long-term bonds, this can indicate that investors are concerned about a possible recession.
We covered a lot of concepts in a very short amount of time. Hopefully, it all made sense. But to be honest, we're just barely scratching the surface of this topic – but this is precisely why we started this series on "Questions You Were Afraid to Ask." The world of investing can be a complicated one. Sometimes, it's more complicated than it needs to be. You will often see terms like "yield" thrown about in the media without any explanation or context. Many investors, even experienced ones, can find all this lingo to be confusing, even intimidating. That's not how investing should be! You don't need a PhD to understand this stuff. You just need to break it down and translate it into plain English. Everyone, regardless of their level of education or experience, has the right to invest with confidence in their own future. Furthermore, smart investors don't actually need to think about terms like "yield-to-worst" that much. It's far more important to understand what you want to accomplish, and what steps you need to take to get there.

Questions You Were Afraid to Ask #10: What are the pros and cons of investment apps?

There are 4 advantages to investing app:

1. Mobile investing apps enable people to buy and sell certain types of securities right from their phone. They have provided investors with a quick and easy way to access the markets. For new investors who are just getting started, these apps have made the *act* of investing more accessible than ever before. And that's a good thing! Even today, many people only invest through an employer-sponsored retirement account, like a 401(k). That's because they may lack the resources, confidence, or ability to invest in any other way. But not everyone has access to a 401(k). And while 401(k)s are a great way to save for retirement, many people have *other* financial goals they want to invest for, too. So mobile apps provide a handy, ready-made way to do just that.
2. Secondly, many apps enable you to invest right from your phone, anytime, anywhere. In addition, many apps don't require a minimum deposit, so you can start investing with just a few dollars.
3. A third advantage is that most popular apps often charge extremely low fees – or even no fees at all – to buy or sell stocks and ETFs.
4. Lastly, many apps also come with features beyond just trading. Some apps will help you invest any spare change or extra money, rather than let it simply lie around in a bank account. Others enable you to invest automatically – daily, weekly, bi-weekly, monthly, etc. That's really neat, because investing *regularly* is a key part of building a nest egg.

It's no surprise, then, that these apps have skyrocketed in popularity. According to an article in Business of Apps, app usage increased from 28.9 million in 2016 to more than 137 million in 2021.

There are some unquestionable downsides too, so before you whip out your phone and start trading, there are some important things to know first. When you think about it, an app is essentially a tool. And like any tool, there are things it does well…and things it can't do at all. And, like any tool, it can even be dangerous if misused.

1. The first issue is that the very accessibility that makes these apps so popular is also what makes them so risky. When you have a tool that provides easy, no-cost trading, it can be *extremely* tempting to overuse it. According to a 2022 article in the Toronto Star, researchers have found that this temptation can lead to overly risky and emotional decision-making, as investors try to chase the latest hot stock or constantly guess what tomorrow will bring. So what's the result? Pennies saved on fees and fortunes are potentially lost on speculation.
2. The second and biggest issue is that while these apps make it easy to *invest,* they provide no help with actually reaching your financial goals. No app, no matter how sophisticated, can answer your questions. Especially when you don't even know the questions to ask. No app can hold your hand and help you judge between emotion-driving headlines and events that necessitate changes to a portfolio. No app can help you determine which investments are right for *your* situation. Just as you can't hammer nails with a saw, or tighten a bolt with a screwdriver, no app can help you *plan* for where you want to go and what you need to get there.

This is where an advisor plays an important role.
Take a moment to think about the goals you have in your life. They could be anything. For instance, here are a few my clients have expressed to me over the years: **Start a new business. Visit the country of their ancestors. Support local charities and causes. Design and build their own house. Play as much golf as possible. Volunteer. Visit every MLB stadium. Send their kids to college. Read more books on the beach. Tour national parks in a motorhome. Spend time with family.**
Achieving these goals often requires investing. But there is more to investing than just buying and selling stocks. There's more to investing than simply *trading*. Investing, when you get down to it, is the process of determining what you want, what kind of return you need to get it, and where to place your money for the long term to maximize your chance of earning that return. It's a *process.* A process that should start now, and last for the rest of your life. A process that an app alone cannot handle – just as you can't build a house with only a saw.
So, what are my thoughts on mobile investing apps? They are a tool, and for some people, a very useful one. But they should never be the only one in your toolbox.

Questions You Were Afraid to Ask #11: What does it mean to invest in cash?

Here are some examples just from the last year or so:

“Cash is king again.”

“Warren Buffett sits tight on cash.”

“No more ‘cash is trash’ billionaire hedge fund manager says.”

“How much of an investment portfolio should be in cash?”

Headlines like these often confuse new investors. But even experienced investors sometimes wonder: “What does it mean to invest in cash?” After all, we don’t usually think of the word “cash” in relation to investing. For most people, cash is the stuff you keep in your wallet. So, what does this mean exactly?

This question is a textbook example of an intelligent question that people are often afraid to ask. Fortunately, “investing in cash” is a fairly simple concept. It means to invest in a type of **short-term security** for a set period of time in exchange for one or more interest-rate payments.

Certificates of deposit (CDs), **money market accounts**, and **treasury bills** are three examples. These securities are known as “cash equivalent” investments, but just the word “cash” is often used as an umbrella term to cover all the various types. And this is because these types of investments are very **liquid**, which means the funds inside them can be converted to actual cash quickly and easily compared to stocks, bonds, or investment accounts like a 401(k) or IRA. Stocks and bonds aren’t always easy to sell, and depending on the timing, you may sell for a lower amount than what you paid for. And withdrawing the money from an IRA or 401(k) before you retire can trigger financial penalties from the government.

That’s why these types of securities, like the **Certificates of deposit** (CDs), **money market accounts**, and **treasury bills** are referred to as “investing in cash.” They still provide a return – hence the *investing* part – but also a level of liquidity that is close to actual, physical currency.

Cash investments can be VERY handy for 3 reasons.

1. **It can keep your money safe in a volatile market.** Money markets and certificates of deposit are historically stable investments and are often insured up to a certain point by the federal government.
2. **You can still earn a small return on it,** in the form of interest rate payments, which are generally higher than with a basic savings account.
3. **It provides easy access within a relatively short period of time.** Most money markets have a maturity of six months or less. Treasury bills mature within one year or less. CDs, meanwhile, usually have a maturity of 6 months to a few years.

But, there are certainly some downsides to investing in cash.

1. If your focus is on *growing* your money, there are usually much better options. That’s why many investors often shun putting too much money into cash because they feel there are more productive ways to invest.
2. While they are very liquid compared to other securities, there are still penalties if you withdraw the money from a CD before maturity. Money markets don’t have an early withdrawal penalty, but many banks and credit unions will charge monthly fees if the balance falls below a certain minimum.

So with all this in mind, why have we seen so many headlines about "cash" in recent years? Well, it all has to do with interest rates. As you probably know, the Federal Reserve has been gradually hiking rates for much of the past two years to bring down inflation. When the Fed raises rates, banks and credit unions usually follow suit. As a result, some cash investments have been paying higher interest rates than normal. This, coupled with a volatile stock market, has caused cash to gain in popularity with some investors.

It's impossible to know how long this trend will continue. And it's worth emphasizing that cash, like all securities, is an investment that is *sometimes* right for *some* people in *some* situations…but not *always* right for *all* people *all* the time.

Questions You Were Afraid to Ask #12: What exactly is copy trading?

Copy trading enables individuals to automatically copy positions that are opened and managed by other selected individuals. The purpose is to replicate the trades of more experienced investors. The idea of copy trading is simple……Technology is used to copy the real-time trades of other live investors so that every time they trade, their trades can be coped into the investor's brokerage account.

The copying trader usually retains the ability to disconnect copied trades and manage them themselves. They can also close the copy relationship altogether, which closes all copied positions at the current market price.

Copied investors, who are called leaders or signal providers, are often compensated by flat monthly subscription fees on the part of a trader, a signal follower, seeking to copy their trades.

This is how copy trading works……

- The Brokerage provides a copy trading software or application.
- Traders then sign up with the brokerage and link their accounts to the copy trading app.
- As the Copied Investor trades and build a track record, then their performance data, such as monthly returns and profitability can be monitored through the app.
- The Copied investor selects which signals to follow. Then when the copying investor connects, every transaction executed is automatically replicated in the copying investors account.
- In return, the Copied Investor charges the copier a percentage of the profits.

There are 4 major advantages of copy trading……..

1. **Flexibility**: While copy trading involves simply copying the trades of the provider, the copier still maintains control of how much they want to risk per trade.
2. **Efficiency**: Becoming a successful trader is a long journey and not every trader can dedicate multiple hours per day to this. However, copy trading allows you to trade right alongside top traders even if you're busy with other things
3. **Transparency**: In Copy trading there is a leaderboard where you can compare different providers and their performance. This means wins and losses are visible to see.
4. **Diversification**: Copy trading is not only helpful for traders who lack the time to do any trading on their own, Traders can also choose to copy someone as a diversification tool. If your own strategy isn't performing well or you're finding a lack of trading opportunities, copy trading might make up for some of it.

But there are some Disadvantages of copy trading too…..

1. **Picking the right trader can be difficult**: If you were thinking of buying into a stock or investment fund, you would probably spend some time doing research to figure out if it’s the right decision, so this is the same sort of approach you should use when choosing which traders to copy. It’s not necessarily the trader with the highest monthly return you want to copy. There are other factors to consider, such as maximum drawdown and how much trading history the trader has.
2. **Not understanding the risks**: Copy trading can be risky because losses are replicated in the same way that wins are. While you have some control over the risk, you do not control the trades of the trader you are following. Market conditions may change, and the master trader may struggle to adapt, or they may be stressed and unable to control their emotions when trading.
3. **Additional costs**: Some providers charge a subscription fee if you want to copy their trades, so always check before you trade.
4. **Market risks**: Copy trading does not protect you from all the typical market risks such as slippage, rejected orders, or platform outages.

Questions You Were Afraid to Ask #13: What are REITS and why have they become increasingly popular once again?

The rapidly emerging consensus is that the Federal Reserve is entering a new, more accommodative period that increases the prospects for stabilizing and even declining interest rates.

So even though interest rates are high now, investors are anticipating them to decline substantially in the year ahead. And this means that sectors that have been hurt by higher rates, such as real estate investment trusts, or REITS, may be poised for a rebound in the year ahead as rates fall. REITs offer the ability to own real estate without all the headaches of actually managing it yourself. REITs enjoy significant tax advantages, most notably the ability to avoid tax at the corporate level in exchange for paying out most of their income as dividends. REITs often offer among the highest dividends of any industry. Publicly traded REITs are among the best types of REITs to invest in, because they offer high yields, low overall management costs and the scrutiny of public investors. With interest rates likely to fall in the short to medium term, a key cost for REITs is poised to fall, too.

The impressive performance of REITs during late October and November may be a signal that the end of the rate-rising cycle will herald a period of REIT outperformance.

It’s important to remember that although now might seem like a good time to buy REITs, but there are a few common mistakes investors would be wise to avoid, especially if the economy faces volatility in the future.

1. **Selling at the bottom**
   Investing is all about buying low and selling higher. So when the market drops substantially, as it did in 2022, you want to evaluate whether you're selling only because the REIT has gone down or because you think it's going to fall further due to fundamentals. The market is often effective at predicting the future. Good news can happen without you being aware of it, and often the good news can be attributed to investors becoming less pessimistic overall. If you had sold REITs in 2022, you would have suffered losses and missed the growth these assets have enjoyed since November 2023. Instead of selling when the price drops, savvy investors know that buying the dip can be advantageous, assuming strong fundamentals and supply-demand dynamics hold.
2. **Not analyzing a REIT carefully.** Whether you're considering buying or selling a REIT, it's important to analyze them and the industry carefully. REITs operate in many different sectors — such as healthcare, lodging, apartments, retail and data centers, to name a few. The dynamics of each of these sectors is tremendously different so you can't take a "one size fits all" approach. Before you make a decision on how to proceed, consider these factors as well as the more specific situation at each company. Are tenants paying their rent? Is the debt load manageable? Will the company need to raise money in the future if the economy downturn? These are just a few of the questions that you'll want to consider before taking any action.

3. **Letting fear keep you from buying good REITs.** If you've analyzed the company and the long-term future looks good, it could be a mistake not to buy more, especially if you're receiving a significant discount to what you think the REIT will be worth in the future. And even good companies can become cheaper as new information emerges or investors become more pessimistic. While REITs are known for their stable dividends, if a REIT isn't collecting its rent, it will have a hard time paying its dividend. So doing a thorough analysis of a REIT can help you eliminate any fears or doubts.

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