Your Questions Answered About The AAII Way

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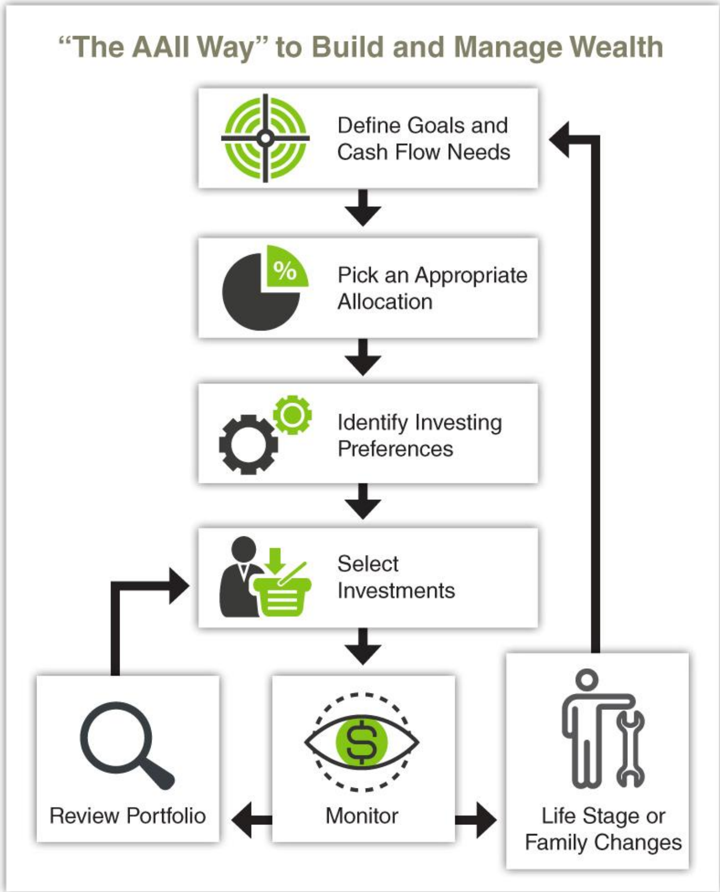
Q: What have you found to be helpful in terms of staying disciplined when making investment decisions?

A: Roger says “having a plan and working the plan”

The AAII Way is a new project to help you create a comprehensive and personalized plan for investing.

It will help you to become a more effective manager of your own assets.

The Five-Step Process



Source: "A Process for Creating Your Own Wealth Plan," *AAII Journal*, June 2020.

What Does It Encompass?

- A series of worksheets unveiled at www.aaii.com/AAIIWay
- Commentaries in the weekly AAII Investor Update
- Revised versions of the worksheets in the *AAII Journal*
- Longer-term: Integrated into AAII.com and potentially a new book

Q: What prompts you to review your portfolio allocation?

A: John says he “updates his planning and tracking spreadsheet and reviews his allocation at the start of each year.”

A Systematic Portfolio Review Process Is Important

Stocks	(Open Ended)	
Frequency of Reviewing	________	(Open Ended)
Any Meeting a Sell Rule?	________	(See Sell Rules; Sell Those Meeting a Sell Rule) (Open Ended)
Any Change in Strategy?	________	(Y/N) (If yes, revise buy and sell rules)
Bonds		
Frequency of Reviewing	________	(Open Ended)
Any Meeting a Sell Rule?	________	(See Sell Rules; Sell Those Meeting a Sell Rule) (Open Ended)
Any Change in Strategy?	________	(Y/N) (If yes, revise buy and sell rules)
Mutual Funds		
Frequency of Reviewing	________	(Open Ended)
Any Meeting a Sell Rule?	________	(See Sell Rules; Sell Those Meeting a Sell Rule) (Open Ended)
Any Change in Strategy?	________	(Y/N) (If yes, revise buy and sell rules)

Q: What are the biggest investing mistakes you've made?

A: Stephen says, "panicking and selling in a downturn."

Check Your Tolerance for Risk

Financial and Psychological Risk

During market declines, you have:	
Significantly reduced my exposure to stocks and stock funds	1
Somewhat reduced my exposure to stocks and stock funds	**3** x
Maintained my allocation or bought more stocks	6
How much of your spending needs are covered by non-portfolio income?	
None	1
Some	3
All	**6** x
How would you describe your knowledge of key investing concepts?	
Basic/Low	1
Moderate	**3** x
High	6
Financial/Psychological Tolerance Score (total of scores above)	12

Based on your score, your financial and psychological tolerance is:	
Low	1-5
Moderate	6-11
High	12-18

Pick an Appropriate Asset Allocation

Revised Asset Allocation Models

We've highlighted what's changing.

Aggressive Investor	Moderate Investor	Conservative Investor
90% Diversified Stock	60% Diversified Stock	40% Diversified Stock
Suggested Allocation Breakdowns	**Suggested Allocation Breakdowns**	**Suggested Allocation Breakdowns**
20% Large-Cap Stocks	20% Large-Cap Stocks	20% Large-Cap Stocks
20% Mid-Cap Stocks	15% Mid-Cap Stocks	10% Mid-Cap Stocks
20% Small-Cap Stocks	10% Small-Cap Stocks	0% Small-Cap Stocks
20% International Stocks	15% International Stocks	10% International Stocks
10% Emerging Markets Stocks	0% Emerging Markets Stocks	0% Emerging Markets Stocks
10% Intermediate Bonds	30% Intermediate Bonds	40% Intermediate Bonds
0% Short-Term Bonds	10% Short-Term Bonds	20% Short-Term Bonds
Allocations	**Allocations**	**Allocations**
10% Fixed Income	40% Fixed Income	60% Fixed Income
90% Diversified Stock	60% Diversified Stock	40% Diversified Stock

Hold Some Safe Assets

Two Retirement Withdrawal Strategies: https://www.aaii.com/investor-update/article/13093-two-retirement-withdrawal-strategies

Create a Systematic Portfolio Review Process

Stocks	(Open Ended)	
Frequency of Reviewing	________	(Open Ended)
Any Meeting a Sell Rule?	________	(See Sell Rules; Sell Those Meeting a Sell Rule) (Open Ended)
Any Change in Strategy?	________	(Y/N) (If yes, revise buy and sell rules)
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Frequency of Reviewing	________	(Open Ended)
Any Meeting a Sell Rule?	________	(See Sell Rules; Sell Those Meeting a Sell Rule) (Open Ended)
Any Change in Strategy?	________	(Y/N) (If yes, revise buy and sell rules)

Q: What parts of the investment process do you struggle with?

A: Terry would like “help with determining asset classes and percentages to use.”

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Allocation Depends on Goals …

Retired Couple: Bob and Jane are recently retired and have children and grandchildren.

Goal	Number of Years Away	Spending Duration	Priority	Comments
Pay for retirement	Now	30 years	1	Social Security and pension income should be sufficient
Help with older grandchild's college expenses	8 years	4 years	2	Do first, but balance with younger grandchild
Help with younger grandchild's college expenses	12 years	4 years	3	Try to proportionately match with first grandchild
Leave an inheritance	30-35 years	Zero	4	Invest aggressively to grow for heirs

Source: "Defining Your Investing Goals," *AAII Journal*, July 2020.

… And Tolerance for Risk

<u>Financial and Psychological Risk</u>

During market declines, you have:		
Significantly reduced my exposure to stocks and stock funds	1	
Somewhat reduced my exposure to stocks and stock funds	**3**	x
Maintained my allocation or bought more stocks	6	
How much of your spending needs are covered by non-portfolio income?		
None	1	
Some	3	
All	**6**	x
How would you describe your knowledge of key investing concepts?		
Basic/Low	1	
Moderate	**3**	x
High	6	
Financial/Psychological Tolerance Score (total of scores above)	12	

Based on your score, your financial and psychological tolerance is:	
Low	1-5
Moderate	6-11
High	12-18

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Then Match Asset Allocation

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20% International Stocks	**15%** International Stocks	**10%** International Stocks
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10% Intermediate Bonds	**30%** Intermediate Bonds	**40%** Intermediate Bonds
0% Short-Term Bonds	**10%** Short-Term Bonds	**20%** Short-Term Bonds
Allocations	**Allocations**	**Allocations**
10% Fixed Income	**40%** Fixed Income	**60%** Fixed Income
90% Diversified Stock	**60%** Diversified Stock	**40%** Diversified Stock

Q: What parts of the investment process do you struggle with?

A: Linda finds it “challenging to know what stocks to buy and which to sell.”

Write Down Portfolio Composition and Rules

Portfolio Composition and Notes

Equities	Portfolio Allocation	Strategies, Types of Investments and Rules
Large-Cap Stocks	15%	Frank uses value-oriented AAII Stock Screens and My Portfolio, sells stocks with Value Grades of F
Mid-Cap Stocks		
Small-Cap Stocks		
International Stocks		
Balanced/Target-Date Fund Portion	20%	Total market index funds; keep track of objective and index followed
Other:	40%	Equity portion of target-date funds held in 401(k) plans; keep track of objective and index followed
Total Equity Allocation	75%	
Fixed-Income Allocation		
Short-Term	10%	Bond funds held in Sue's inherited IRAs; monitor with AAII My Portfolio
Intermediate-Term		
Long-Term		
Balanced/Target-Date Fund Portion	15%	Fixed-income portion of target-date funds held in 401(k)s; keep track of objective and index followed
Other:		
Total Fixed-Income Allocation	25%	

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Look at the Model Shadow Stock Portfolio Rules

Shadow Stock Portfolio Rules

Purchase & Sales Rules

Stock purchases must meet these criteria:

- No bulletin board or pink sheet stocks will be purchased.
- Price-to-book-value ratio must be less than or equal to 0.90. (This figure will change gradually with changes in overall market values.)
- Market capitalization must be between $30 million and $300 million. (This figure will change gradually with changes in overall market values.)
- The firm's last quarter and last 12 months' earnings from continuing operations must be positive and, if there are earnings estimates, the estimates must be positive for the current quarter and year.

https://www.aaii.com/model-portfolios/stock-rules

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Use Our Stock Screens for Investment and Rules Ideas

- The total liabilities to total assets ratio for the last fiscal quarter (Q1) is less than or equal to the industry's median total liabilities to total assets ratio for the same period
- The price-earnings ratio is in the bottom 40% of the entire database (Percent Rank less than or equal to 40)
- There are at least four analysts providing earnings estimates for the current fiscal year (Y0)
- The current earnings estimate for the current fiscal year (Y0) is greater than it was one month ago
- The current earnings estimate for the next fiscal year (Y1) is greater than it was one month ago

AAII Dreman With Estimate Revisions Screen: https://www.aaii.com/stocks/screens/85

Q: What are the biggest investing mistakes you've made?

A: J.B. regrets "not putting more money in the market earlier in life."

Focus on Goals and Their Timeline

Retired Couple: Bob and Jane are recently retired and have children and grandchildren.

Goal	Number of Years Away	Spending Duration	Priority	Comments
Pay for retirement	Now	30 years	1	Social Security and pension income should be sufficient
Help with older grandchild's college expenses	8 years	4 years	2	Do first, but balance with younger grandchild
Help with younger grandchild's college expenses	12 years	4 years	3	Try to proportionately match with first grandchild
Leave an inheritance	30-35 years	Zero	4	Invest aggressively to grow for heirs

Source: “Defining Your Investing Goals,” *AAII Journal*, July 2020.

Member comment about the Retirement Withdrawal Planning Worksheet from Mary Jo:

"Use an example of a single person with $250,000 in savings and median Social Security income."

Use Our Retirement Withdrawal Planning Worksheet

Withdrawal Option 2: AAII Level3		
Retirement Assets		
Retirement Savings	250,000	(Total of all retirement accounts, tax-preferred and taxable)
Expected Expenses for Next Four Years	170,000	(Estimated)
Current Year Withdrawal Percentage	5%	(Maximum of 5% of retirement savings suggested)
Current Year Withdrawal	12,500	(Withdrawal percentage × retirement savings)
Withdrawal From Non-RMD Accounts	0	(Roth IRA, taxable accounts, etc.)
Withdrawal From RMD Accounts	12,500	[Total from traditional IRAs, 401(k) plans, etc.]
Required Minimum Distribution	14,705	(Total for all applicable accounts for current year)
Amount (Below)/Above RMD	(2,205)	(Withdrawal from RMD accounts – RMD)
(If below, add excess RMDs to taxable accounts; if above, take planned withdrawal needed for living expenses)		

Retirement Withdrawal Planning Worksheet https://www.aaii.com/latest/article/13094-retirement-withdrawal-planning-worksheet

If your guaranteed income (e.g., Social Security, pensions, etc.) and sustainable withdrawal percentage are not enough, seek out other sources of income (working, home equity, etc.)

Q: If you were to create a personalized investing plan, what would you want it to include?

A: Another member named John would include "goals and time frames for each goal, and for each goal: asset allocation, saving and accumulation strategy and planning."

Consider Going Through the Process for Each Goal

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Source: "Defining Your Investing Goals," *AAII Journal*, July 2020.

Going forward, we'll be using the official name of:

Individual Investor Wealth-Building Process

See everything we're creating for the Individual Investor Wealth-Building Process at:

https://www.aaii.com/AAIIWay

The Individual Investor Wealth-Building Process

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Upcoming Webinars

Register at www.aaii.com/webinars

Craig Israelsen on Retirement Portfolio Analysis: A Multi-Decade Review
Wednesday, October 7, 2020, 7:30 p.m. CDT

Mebane Faber on A Tale of Two Tails: The Melt Up and the Bear
Wednesday, October 14, 2020, 7:30 p.m. CDT

Chris Pedersen on Simple & Effective Balanced Portfolios for Lifetime Investing Success
Wednesday, October 21, 2020, 7:30 p.m. CDT

Charles Rotblut on Update on the Individual Investor Wealth-Building Process
Wednesday, October 28, 2020, 7:30 p.m. CDT

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