AAII
AMERICAN ASSOCIATION OF INDIVIDUAL INVESTORS®

Using Your Personal Preferences to Find the Right Investment

Identifying Your Investment Management Preferences

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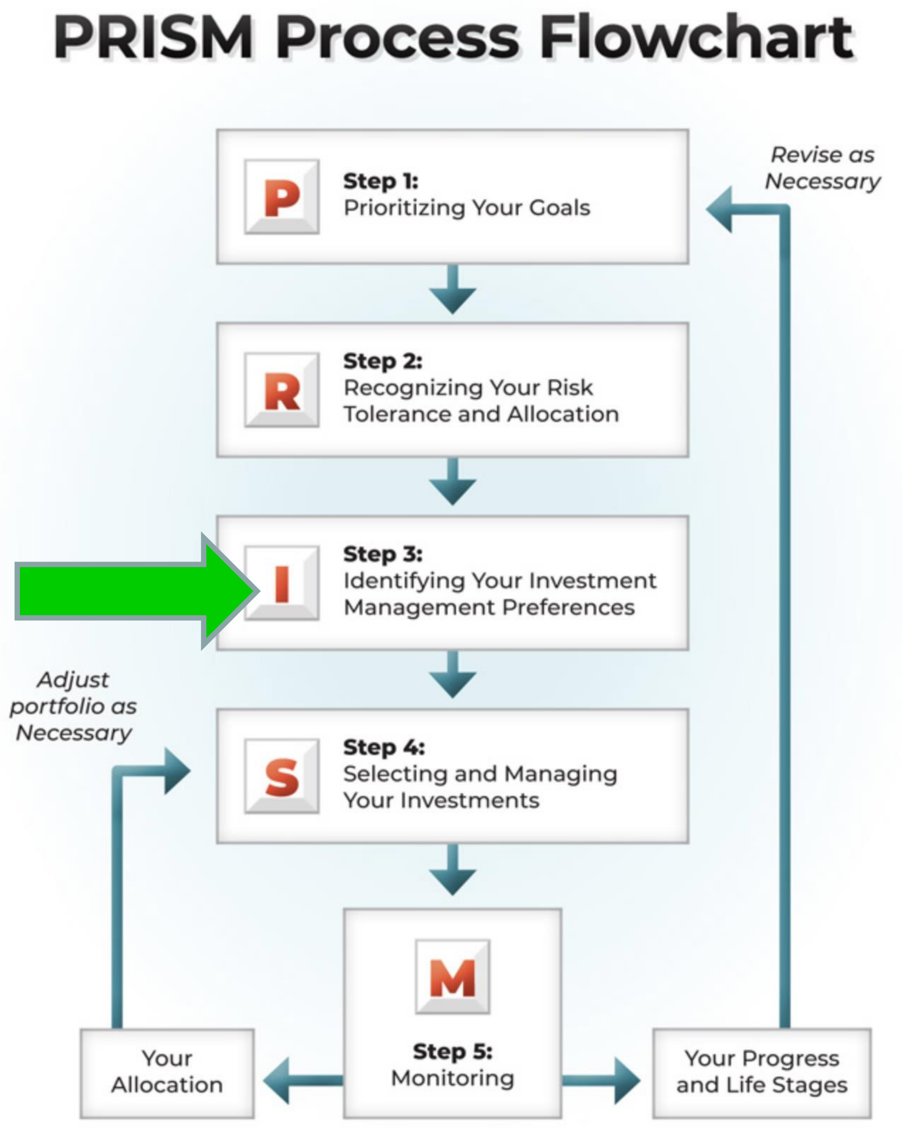
The PRISM Wealth-Building Process provides a framework for aligning your investment decisions with your goals.

The five steps of PRISM empower you to create a personalized investment plan and have the confidence to follow it.

PRISM: Wealth-Building Process



The optimal strategy is not one that maximizes return, but rather one that helps you stick to your long-term investing plan and achieve your goals.

PRISM helps you identify this strategy.

- Defining how your portfolio will be managed narrows down the vast choice of investments

- Being clear about your preferences provides clarity about what types of investments you will consider, and which you won’t

- Restrictions or constraints can alter your choice of investments

Pause for a Poll

1. How are your investments managed?

a) I pick what securities to buy and sell

b) I use mutual funds or ETFs

c) I handpick stocks and use mutual funds/ETFs

d) I work with an adviser

Identifying Your Investment Management Preferences

The following worksheet is intended to help you think through the various considerations about how your portfolio will be managed. You may view yourself as being a true DIYer, only to realize that your 401(k) requires you to cede some control to mutual fund managers. As such, this worksheet can serve as a prompt for you to include rules for buying and selling mutual funds in your personalized investing plan.

There are no right or wrong answers. Rather, the goal is to help you clarify the type of investor you are in terms of how portfolio decisions will be made.

1. How much control do you want in determining which investments are held in your portfolio?
   - ☐ Complete
   - ☐ A mix of self-directed and an adviser
   - ☐ Just keep me informed about my portfolio

2. Do you prefer an active approach to investing, a passive approach (indexing) or a blend of the two?
   - ☐ Active (try to beat the market)
   - ☐ A blend (a mix of active and passive strategies)
   - ☐ Passive (indexing/tracking the market)

- Fully Hands-On
- Partially Hands-On
- Index
- Fund
- Combo Hands-On/Adviser
- Bolt-On
- Adviser

Fully Hands-On Investor

- Selects all investments
- Has the knowledge, time and interest in researching individual securities
- Greater control comes at cost of more effort

- 401(k) plans, 529 plans and health savings accounts may be limited to funds
- Inability to adequately diversify among individual bonds
- Difficulties analyzing and/or buying foreign stocks
- Limits on time to research investments
- Lack of a well-defined, systematic approach

Partially Hands-On Investor

- Combines individual securities with funds
- A common example is hand-picking domestic stocks and using funds for foreign investments and bonds
- Another is holding stocks in brokerage accounts and funds in 401(k) plans

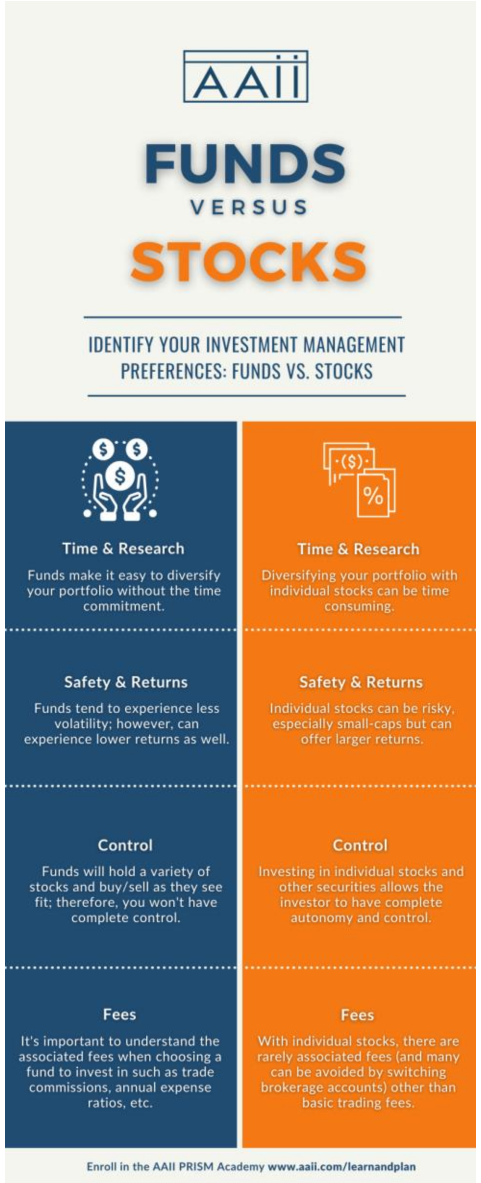
Choosing Between Funds and Individual Securities Based on Preferences

Identifying Your Investment Management Preferences: Lesson 4

In the PRISM Academy, we asked our members to answer these two questions:

1. Does your portfolio comprise mostly funds or securities, and why did you go this route?

2. Which constraints that you identified in the last lesson impacted your decision to focus primarily on funds versus individual securities?



Index Investor

- Seeks mutual funds and ETFs tracking well-known indexes
- Places emphasis on minimal costs and market-like returns
- Requires minimal effort in terms of research and management

- 401(k) plans, 529 plans and health savings accounts may not include index funds
- Desire for time segmentation, such as bond ladders, may require some active management
- Returns will not beat the underlying indexes
- Still requires active oversight of allocation

Fund Investor

- Considers actively managed funds
- Hopes to beat the market through choice of fund
- Prefers to have a professional manager select the investments
- Comes with risk of underperformance, higher expenses and potentially less tax efficiency

Pause for a Poll

2. Do you use a professional to help with your finances?

a) Only for taxes and/or estate planning

b) I periodically consult with a planner

c) I work with a financial adviser

d) I do everything myself

Combo Hands-On/Works With an Adviser

- Selects own investments while also working with a planner or adviser
- A planner may be used just for periodic review
- Alternatively, an adviser may oversee part of the portfolio
- Robo-advisers may be combined with self-directed portfolios

Bolt-On Approach

- Specialists are used for specific tasks
- Life insurance may require working with an agent
- A tax professional’s assistance can be required
- An attorney may be retained to help with estate planning

- Even if you are a dyed-in-the-wool do-it-yourself investor, you may still need professional assistance
- Each professional hired adds complexity and costs to the process
- Who you hire matters; it may not be easy to find the right professional
- Not knowing what questions to ask

Adviser Investor

- All portfolio management is outsourced to an adviser
- The adviser selects the investments and manages the portfolio
- Most expensive approach
- Robo-advisers can be used

- Risk of cognitive decline is an argument for having some oversight
- If you lack time to manage your own investments, an adviser may make sense
- Always do your research: Look at BrokerCheck, check with your state’s securities office and do a Google search
- Ask about the adviser’s process to make sure they are a good fit for you

What should you do with this information?

- Fully Hands-On: Solely focus on individual stocks and bonds
- Index Investor: You can ignore all chatter about stocks and active strategies
- Fund Investor: Focus on the best funds, not whatever stocks you hear about
- Combo: Let go of what you’ve outsourced and focus on what you’re responsible for

- This comes into play in the next step, Selecting Your Investments
- It plays into which investments you choose and the rules you will follow for buying and selling
- You may wish to include asset location considerations into your buy rules

Questions?

Try Out the Worksheet

PRISM WEALTH-BUILDING PROCESS

Identifying Your Investment Management Preferences

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Where can I download the worksheet?

- In the AAII PRISM Academy under the "Library" tab
- On the AAII.com Learn and Plan page under Wealth-Building Process Toolbox

In the AAII PRISM Academy community, we asked members:

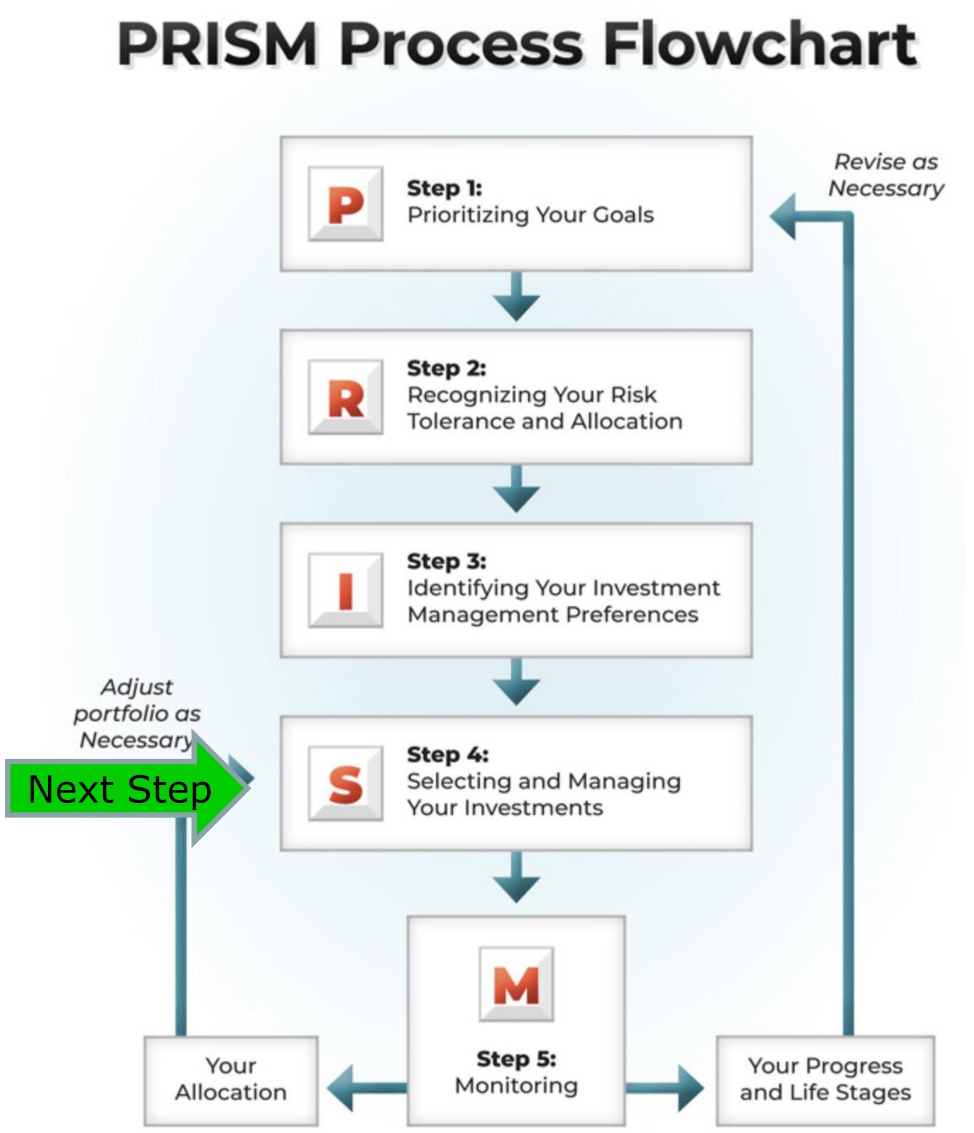
1. How certain criteria and constraints such as time, education, wealth, interest, etc., may affect their investment management preferences

2. How the type of account they currently have may impact how their portfolio should be managed

3. How the differences between funds versus individual securities may also impact who manages their portfolio and assets

Participating in our online community helps you get more value out of the PRISM Academy.

PRISM: Wealth-Building Process



Join us in the PRISM Academy to complete Step 3, Identifying Your Investment Management Preferences.

Participating in our online discussions help you learn how to use the Identifying Your Investment Management Preferences worksheet to prepare for Step 4, where you will learn how to select the right investments based on your management preferences.

[Join Us In the PRISM Academy]

PRISM Wealth-Building Academy

- An interactive experience to help you create your own personalized wealth-building plan with PRISM
- All new instructional videos and tools
- Customizable worksheets
- Community forums to share ideas and discuss PRISM with other AAII members

AAII PRISM Academy Syllabus

Introduction: Welcome to the PRISM Academy

P - Prioritizing Your Goals

- Lesson 1: Prioritizing Your Goals
- Lesson 2: Why Start with Goals?
- Lesson 3: What Are Your Goals?
- Lesson 4: The Key Components of Goals
- Lesson 5: The Timing of Goals
- Lesson 6: Wealth Required to Fulfill Each Goal
- Lesson 7: Prioritizing Goals (Final Lesson of Step 1)

R - Recognizing Your Risk Tolerance and Allocation

- Lesson 1: Recognizing Your Risk Tolerance and Allocation
- Lesson 2: What Is Risk?
- Lesson 3: Short-Term vs. Long-Term Risk
- Lesson 4: Timing Aspects of Risk
- Lesson 5: Financial Aspects of Risk
- Lesson 6: Psychological Aspects of Risk
- Lesson 7: Understanding Your Risk Tolerance
- Lesson 8: The AAII Risk Assessment Worksheet Walkthrough
- Lesson 9: The Importance of Allocation and Diversification
- Lesson 10: Gain Confidence in Your Allocation for the New Year With PRISM

I - Identifying Your Investment Management Preferences

- Lesson 1: Identifying Your Investment Management Preferences (**Worksheet!**)
- Lesson 2: Identifying the Impacts of Different Types of Accounts
- Lesson 3: Identifying the Impacts of Additional Constraints
- Lesson 4: Choosing Between Funds vs. Securities Based on Preferences
- Lesson 5: Using Your Personal Preferences to Find the Right Investment (**Coming Soon - 2/17/22**)

S - Selecting and Managing Your Investments

- Coming Soon

M - Monitoring Your Allocation, Progress and Life Stages

- Coming Soon

PRISM Wealth-Building Academy:

www.aaii.com/learnandplan

AAII Community:

https://community.aaii.com

Did you complete today's lesson in the AAII PRISM Academy online?

Step 3, Lesson 5 is available to all PRISM Academy Students:

It is focused on how to decide whether you may need a financial professional to assist with managing your portfolio or not.

How to complete Identifying Your Investment Management Preferences Lesson 5:

- Read the prompt
- Check out the infographic
- Participate and respond to the two questions in the prompt
- Read other members' comments

- Enroll in the PRISM Academy to take advantage of Step 1, Step 2 and Step 3
- February—Step 3: Identifying Preferences Webinar
- March—Step 4: Selecting Investments Webinar
- April—Step 5: Monitoring Allocation, Progress and Life Stages

- Your PRISM Wealth-Building Process will evolve over time as your goals grow closer and your life changes
- PRISM provides a framework for you to make investment decisions within; its goal is to help you become a more effective manager of your own assets
- If you have multiple goals, prioritize them and complete steps 2, 3 and 4 for each goal

Upcoming Webinars

February
23

The Individual Investor Show:

Improve Your Allocation by Gauging Risk and Ranking Asset Returns

Premiers at 7:30 PM CST

Watch on Youtube or Listen on Spotify, Amazon Music, or Audible

To view and register for upcoming webinars, visit aaii.com/webinars.

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